Technical Study 27

FEDERAL POLICIES TO STIMULATE PRIVATE-SECTOR EMPLOYMENT

Peat, Marwick and Partners

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This is one in a series of technical studies prepared for the Task Force on Labour Market Development. The opinions expressed are those of the author and do not necessarily reflect those of the Task Force. They do not reflect the views of the Government of Canada.

ABSTRACT

FEDERAL POLICIES TO STIMULATE PRIVATE SECTOR EMPLOYMENT

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The purpose of this report is to describe alternative federal government programs either to stimulate or maintain employment. Employment goals are important in the implementation of programs and policies by many agencies. While these programs may have other objectives, it was our intent in this report to describe those cases where the employment goals was of significant importance.

We have subdivided the mechanisms into the following categories.

- tax incentives,
- procurement policy,
- industrial assistance programs,
- financing programs,
- tariffs and quotas.

Tax incentives, largely or partly aimed at stimulating employment, amounted to approximately $1.8 billion (1979). Of this, approximately $1.1 billion was directed towards the manufacturing sector and included a preferential tax rate on manufacturing and processing profits and accelerated capital cost allowances. Many of the tax incentives display a "capital bias;" they attempt to stimulate employment by encouraging capital investment rather than by providing direct incentives to employment creation.

The Department of Supply and Services administers various policies to encourage the procurement of

Canadian-made goods and services and, hence, to sustain or create employment. These generally give preference to Canadian suppliers over foreign companies even if a cost penalty is involved. No study of the cost of the total premium paid to implement these procurement policies is available, but a rough estimate by a departmental official indicated that the net cost may approximate $250 million.

The government operates several industrial assistance programs, administered by the Department of Industry, Trade and Commerce (DITC) and the Department of Regional Economic Expansion (DREE). The major programs administered by DITC include:

- the Defence Industry Productivity Program, which provides approximately $45 million to $50 million annually to assist industry to develop defence- and civilian-related products for export.
- assistance to the shipbuilding industry in the form of grants to assist in ship construction. Expenditures totalled $83.3 million in fiscal 1979/80.
- aid for the expansion of drydocks. Actual grants were approximately $35 million in fiscal 1979/80.
- the Enterprise Development Program, which provides a variety of grants and loan insurance to Canadian manufacturers. In fiscal 1979/80 grants of approximately $27 million were provided and loans of approximately $156 million insured.

The following programs are administered by DREE:

- The Regional Development Incentives Program provides grants to encourage companies to locate in the less prosperous regions of the country. Grants under this program have ranged between $65 million and $100 million per year.

- General Development Agreements are designed to relate development strategies to provincial objectives. These agreements cover a wide range of projects and the relationship of many to employment creation is tenuous. Some projects, however, are directly related to employment creation and provide either direct grants to industrial installations or "grants in kind" for required infrastructure.

The federal government operates three major programs to provide financing for business at concessional rates or on terms that would not normally be acceptable to commercial lenders. While these programs may not be directly related to job creation, they are often justified by their beneficial effects in this area. These programs are:

- the Federal Business Development Bank, which supplements other lending institutions while remaining self-sustaining. Services include term loans, interim financing, loan guarantees and equity financing.

- the Small Business Loan Act, which authorizes the Minister of Industry, Trade and Commerce to guarantee bank loans to small businesses. The interest rate on such loans is set at 1 per cent above the bank prime rate.

- the Export Development Corporation, which provides a variety of insurance and financing services to Canadian exporters.

The final type of policies identified that is designed to stimulate or sustain employment are tariffs and quotas restricting imports. Four sectors of the economy receive particular protection: agricultural products, textiles, clothing and footwear.

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POLITIQUES FÉDÉRALES VISANT A STIMULER LA CREATION D'EMPLOI DANS LE SECTEUR PRIVÉ

Peat, Marwick et collaborateurs

L'étude a pour but de décrire les divers programmes fédéraux qui visent à stimuler ou à maintenir l'emploi. Les objectifs liés à l'emploi sont importants dans la mise en application de programmes et de mesures par divers organismes. Dans bien des cas, ces programmes comportent d'autres objectifs que celui de l'emploi. Nous nous sommes donc limités à décrire les programmes et mesures qui visent plus particulièrement les objectifs liés à l'emploi. Nous avons regroupé les différents mécanismes de création d'emplois comme suit:

- stimulants fiscaux;
- politique d'approvisionnement;
- programmes d'aide aux industries;
- programmes de financement;
- tarifs et contingents.

Les stimulants fiscaux visant dans une large mesure ou en partie à stimuler l'emploi se chiffraient à quelque $ 1,8 milliard en 1979. De ce montant, environ $ 1,1 milliard a été consenti à l'industrie manufacturière et comprenait un taux d'imposition préférentiel sur les bénéfices provenant de la fabrication et de la transformation, ainsi qu'un amortissement accéléré. Bon nombre des stimulants fiscaux sont biaisés en faveur du capital et visent à stimuler l'emploi par l'investissement de capitaux plutôt que par l'octroi de stimulants directs à la création d'emplois.

Le ministère des Approvisionnements et Services met en oeuvre diverses politiques pour favoriser l'achat de biens et de services canadiens en vue de maintenir ou d'améliorer le niveau de l'emploi au Canada. En général, ces politiques privilégient les fournisseurs canadiens par rapport à ceux de l'étranger, même

s'il en coûte parfois plus cher. Aucune étude des sommes globales versées par le gouvernement à cette fin n'est disponible; toutefois, selon un agent du ministère, le coût net atteignerait environ $ 250 millions.

Plusieurs programmes d'aide aux industries sont mis en oeuvre par le gouvernement du Canada et administrés par le ministère de l'Industrie et du Commerce (I&C) et le ministère de l'Expansion économique régionale (MEER). Voici les principaux programmes d'I&C:

- Programme de productivité de l'industrie du matériel de défense, qui fournit environ $ 45 à $ 50 millions annuellement pour aider l'industrie à mettre au point du matériel militaire et civil aux fins d'exportation.

- Programme d'aide aux constructeurs de navires au moyen de subventions: les dépenses à ce chapitre se sont chiffrées à $ 83,3 millions au cours de l'année financière 1979-1980.

- Programme d'aide à l'expansion des installations de cales sèches: les subventions proprement dites consenties en vertu de ce programme ont atteint environ $ 35 millions au cours de l'année financière 1979-1980.

- Programme d'expansion des entreprises offrant diverses subventions et une assurance-prêts aux fabricants canadiens. Au cours de l'année financière 1979-1980, des subventions totalisant quelque $ 27 millions ont été accordées et des prêts d'environ $ 156 millions ont été assurés.

Le MEER administre les programmes suivants:

- Programme de subventions au développement régional en vertu duquel des subventions sont accordées aux entreprises afin de les amener à s'implanter dans les régions les moins prospères du Canada. Les subventions consenties dans le cadre de ce programme ont varié entre $ 65 et $ 100 millions par année.

- Ententes-cadres de développement conçues afin d'aligner les stratégies d'expansion sur les objectifs des provinces. Ces ententes portent sur une gamme de projets dont bon nombre ont un lien très ténu avec la création d'emplois. Certains projets, cependant, visent directement la création d'emplois. A ce chapitre, on accorde des subventions directes aux industries ou encore des subventions "en biens" pour l'aménagement de l'infrastructure nécessaire.

Le gouvernement fédéral administre trois principaux programmes qui visent à financer les entreprises à des taux privilégiés ou selon des conditions qui ne seraient normalement pas acceptables à une maison de crédit. Quoique ces programmes ne visent pas toujours directement la création d'emplois, il y a lieu de les signaler en raison de leurs effets bénéfiques à cet égard. Voici les programmes en question :

- La banque fédérale de développement qui a pour but de compléter l'apport des autres maisons de crédit tout en restant autonome. Parmi les services qu'elle offre figurent les prêts à terme, le financement provisoire, les garanties de prêts et la participation au capital.

- La Loi sur les prêts aux petites entreprises aux termes de laquelle le ministre de l'Industrie et du Commerce peut garantir des prêts bancaires aux petites entreprises. Le taux d'intérêt de ces prêts est fixé à 1 % de plus que le taux préférentiel.

- La Société pour l'expansion des exportations qui offre divers services d'assurance et de financement aux exportateurs canadiens.

Les tarifs et les contingents, qui imposent des restrictions sur l'importation de produits étrangers, sont les autres mesures visant à stimuler ou à maintenir l'emploi. Bien qu'elles portent sur un grand nombre de produits, quatre secteurs de l'économie sont privilégiés: les produits agricoles, les textiles, le vêtement et la chaussure.

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I - INTRODUCTION

BACKGROUND

As part of the Labour Market Development Task Force's overall review of labour market policy, Peat, Marwick and Partners was asked to document the Canadian Public Sector (Federal) intervention in the marketplace to stimulate employment. The Canadian Employment and Immigration Commission required a detailed description of this intervention.

This report represents our final report on this project as called for in our Terms of Reference. Our preliminary report was submitted in November, 1980. This report, in our view, represents a reasonable overview of the major policy instruments used by the Federal Government to stimulate employment. We have incorporated those changes and additions to the preliminary report requested by the Task Force.

SCOPE OF WORK

As described in our proposal of September 22, 1980, we have placed reliance primarily on data available from internal government sources and have not conducted any primary research outside the Canadian Government.

We have interviewed officials in many Federal Departments and Agencies and have collected published brochures, annual reports and financial statements relating to the various programs. In addition, we have obtained statistical information from several departments. We have not independently verified the accuracy of these statistics.

At the direction of the Commission, we have not prepared information on the programs to stimulate employment offered by the Commission itself nor have we investigated programs directed primarily at agriculture, fishing or the native people.

We have also limited our work in the area of tariffs as directed by the Commission.

REPORT OUTLINE

The following sections of the report discuss the various programs and agencies which influence employment in Canada. Each section deals with a different type of instrument and consequently the report is divided into the following sections:

- Tax incentives
- Procurement policy
- Industrial Incentive programs
- Financing programs
- Tariffs and quotas
- Miscellaneous

II - TAX INCENTIVES

INTRODUCTION

One of the major devices used by the Federal Government to stimulate employment and general economic activity is changes to the tax structure. Such measures as accelerated capital cost allowances, special rates of taxation for certain categories of income and other similar provisions have long been used for a variety of economic and social purposes including the generation of new or the maintenance of existing employment. It is often difficult to ascertain the original purpose for each measure in place, and any one measure may have several objectives. For example, tax incentives for housing construction may be aimed at either producing more housing to meet the needs of Canadians, or they may have as their objective the stimulation of employment in the construction industry. It is probable that the measures were developed to meet both objectives, and that it is not possible to determine in any meaningful fashion which is the overriding objective.

The concept of "tax expenditures" and the "Tax Expenditure Budget" have been developed in recent years in order to quantify the effects of the various tax provisions that have been enacted over the years. The remainder of this section of our report will:

- discuss the general concept of tax expenditures

- review the specific methodology used by the Department of Finance to estimate the Canadian Tax Expenditure Budget

- review the items included in the Tax Expenditure Budget, identify those items which can reasonably be related to employment considerations, briefly describe the operation of the relevant provision and provide, where available, an indication of the magnitude of the item.

TAX EXPENDITURES

The concept of tax expenditures was developed by Stanley S. Slurrey and summarized in Pathways for Tax Reform published by Harvard University Press in 1973. He explained the concept for the United States as follows:

> "The federal income tax system consists really of two parts: one part comprises the structural provisions necessary to implement the income tax on individual and corporate net income, the second part comprises a system of tax expenditures under which governmental financial assistance programs are carried out through special tax provisions rather than through direct Government expenditures. This second system is grafted into the structure of the income tax proper; it has no basic relation to that structure and is not necessary to its operation. Instead, the system of tax expenditures provides a vast subsidy apparatus that uses the mechanics of the income tax as the method of paying the subsidy. The special provisions under which this subsidy apparatus functions take a variety of forms, covering exclusions from income, exemptions, deductions, credits against tax, preferential rates of tax and deferrals of tax.
>
> These special tax provisions serve ends which are similar in nature to those served in the same or other areas by direct government expenditures in the form of grants, loans, interest subsidies, and federal insurance or guarantees of private loans. The interplay is such that for any given program involving federal monetary assistance, the program may be structured to use the tax system to provide that assistance - where it will usually be called a "tax incentive" or structured to use a direct Government expenditure."[1]

Although the above summary was written in relation to the United States tax system, the same principles apply in Canada. Underlying the tax expenditure idea is the concept of a "normal" or "appropriate" tax system designed to raise revenue in a manner which is in some conceptual sense "fair". Any

1 Pathways to Tax Reform Stanley S. Slurrey Harvard University Press 1973, Page 6.

deviation from this basic system is considered a tax expenditure. The issue is one of defining which tax rules are special provisions representing government expenditures made through the income tax system to achieve various objectives apart from the raising of revenue, and which income tax rules constitute the basic structure of the tax system itself, and hence, are integral to having such a tax system at all.

THE GOVERNMENT OF CANADA TAX EXPENDITURE ACCOUNT

The tax expenditure items described in this report are taken from the Government of Canada's Tax Expenditure Account published in 1979. Although a new account was promised in the recent budget, it was not available for this report. While this new account may change the estimates of the magnitude of the various items included, it is unlikely that the types of items considered to be tax expenditures will change in a material fashion.

In order to calculate the value of a tax expenditure it is necessary to define the benchmark tax system. The Government of Canada's Tax Expenditure Account defines this as:

> "one that provides no preferential treatment to Taxpayers on the basis of demographic characteristics, sources or uses of income, geographic location, or any other special circumstances applicable only to a given taxpayer or to a particular group of taxpayers."

Five additional criteria were used to provide a working definition of the benchmark system:

(1) The definition of the benchmark tax system should not depart dramatically from the public perception of the current tax system.

(2) Whenever there is uncertainty or disagreement about the treatment of a given tax provision, the analysis should err on the side of comprehensiveness and include the provision in the tax expenditure account.

(3) A tax provision which may be neutral for all taxpayers, while at the same time clearly being functionally equivalent to a direct spending program, should be classified as a tax expenditure.

(4) Partial or ad hoc tax provisions should be viewed as tax expenditures despite the fact that the same provisions, comprehensively applied could be part of the benchmark tax system.

(5) The benchmark tax structure is taken as one in which there is a separate income tax base for each of the corporate and individual levels.

Almost all tax expenditure items which relate to employment creation are departures from the benchmark corporate tax system or the benchmark commodity tax system. Few, if any, relate to personal taxation.

Benchmark Corporation Tax Structure

In order to calculate tax expenditures relating to corporations, the Account adopts the following comprehensive definition of corporate income:

> "the maximum amount distributable to owners without impairing the capital of the corporation."

This broad definition should require that capital be maintained in real terms but in practice the benchmark tax system is defined on the basis of maintaining capital in nominal terms. As a result income is calculated as follows:

- inclusion of the total value of receipts or receivables of the firm from sales of current output

- inclusion in income of receipts not related to production such as government subsidies and investment income

- subtraction of production and other costs including an amount representing actual depreciation defined as the decline in the historic value of the corporation's productive assets due to wear and tear, obsolescence and the like.

The appropriate tax unit is generally taken as the legal corporate entity, and the basic federal rate of tax is taken to be the rate applicable to large non-manufacturing corporations - 36 per cent. Reductions in this tax rate for manufacturing and processing income, and for small Canadian controlled private corporations are thus considered tax expenditures.

Benchmark Commodity Tax Structure

The basic definition of the benchmark commodity tax system is that it:

> "provide no preferential treatment to taxpayers on the basis of consumption patterns."

The system does not attempt to address any of the tax preferences inherent in the structure of import duties. The main federal commodity tax is the manufacturers' sales tax. In its broadest scope, this tax would apply to "final" consumption of all manufactured or produced goods. Consumer expenditures on services would not be subject to tax. The benchmark tax structure is taken to be this base.

Limitations of the Concept

It is evident from the description of the benchmark tax systems against which tax expenditures are measured that both the inclusion of an item as a tax expenditure and the calculation of its magnitude are to a certain extent subjective measures. They involve value judgements as to what constitutes the benchmark system. For example, the 36 per cent rate for large non-manufacturing corporations is used as the base. It would be possible to construct a system where the manufacturing and processing rate for large corporations was regarded as the base and deviations from this rate regarded as tax expenditures or tax penalties. The result would be considerably different from those contained in the current Tax Expenditure Account.

It is clear, however, that many tax concessions have been granted and the magnitudes calculated in the Tax Expenditure Account do represent logically consistent estimates. The account does highlight the following caveats which must be considered when evaluating the actual estimates of the various provisions set out in the succeeding section of this report:

(1) The revenue impact of each provision is estimated by simulating the change in federal revenues as if that provision alone were eliminated, keeping all other provisions in place. Aggregate amounts cannot be obtained simply by adding together the revenue effects of individual items. Such mechanical adding up can create a significant distortion because of the interaction among individual tax preference items.

(2) Some items which have not been quantified are significant in value.

(3) Taxpayer behaviour is assumed to remain unaffected by the assumed deletion of a tax expenditure provision. Generally, elimination of any tax expenditure provision would cause taxpayers to rearrange their affairs to minimize the impact of the change and thus result in smaller increases in revenue than is implied by the estimates made.

(4) Many of the estimates are highly tentative in nature and are subject to wide margins of error.

(5) In considering the value of any particular tax expenditure item, it must be realized that the value to the taxpayer of a dollar of tax preference is often worth substantially more than a dollar of equivalent direct spending. This results from the fact that, while all tax expenditures directly increase the after tax incomes of taxpayers by the amount of revenue foregone, government grants are generally taxable to the recipients.

EXHIBIT I

GOVERNMENT OF CANADA - TAX EXPENDITURES

FOR THE PURPOSE OF STIMULATING EMPLOYMENT

Item	Estimated Amount (millions of $) 1976	1979
Regional Development		
1. Portion of Investment Tax Credit	*	*
2. Portion of Employment Tax Credit	*	*
Manufacturing Sector		
1. Lower Corporate Tax Rate on Manufacturing and Processing Profits	280	400
2. Investment Tax Credit on Manufacturing and Processing Assets	40	225
3. Two-Year Write-Off of Manufacturing and Processing Assets	320	425
4. Additional Depreciation Allowance on Canadian Built Ships	*	*
5. Excess of Tax Depreciation Over Book Depreciation	70	100
Research and Development		
1. Immediate Write-Off of Research and Development Expenditures	40	65
2. Additional Research and Development Allowance	—	35
3. Investment Tax Credit on Research and Development	—	50
Labour Force		
1. Employment Tax Credit	—	75
Income Maintenance		
1. Exemption of Clothing and Footwear From Sales Tax	465	440

* included elsewhere

Source: Government of Canada Tax Expenditure Account
Department of Finance, December 1979

EMPLOYMENT RELATED TAX EXPENDITURES

A summary of the complete tax expenditure account is reproduced in Appendix I. It contains many items which are clearly not related to the creation or maintenance of employment in Canada. Some items are clearly directed toward employment objectives and many have multiple or unclear objectives. In the remaining portion of this section of our report, we will:

- discuss those items which may have employment objectives

- make a judgement as to which items should properly be considered primarily employment oriented.

A summary of those items we consider to be employment related along with their magnitude as estimated by the Department of Finance is shown as Exhibit I, opposite. Our judgement as to whether or not an item should properly be considered as having employment objectives is based upon our understanding of the provision and on discussions with officials of the Department of Finance.

Transportation and Communication

1. The exemption of transportation equipment from federal sales tax: This includes highway trucks with a gross weight rating of 16,000 pounds or more, trailers and semi-trailers, railway locomotives and railway rolling stocks, ships and other marine vessels purchased or imported for use exclusively in marine activities, eligible aircraft parts and equipment, refrigerator units, etc.

2. The investment tax credit on transportation equipment: A 7% credit is available for the purchase of transportation equipment including ships, aircraft, long-haul trucks, intercity buses, and railway assets.

Our discussions with the Department of Finance indicated that they did not consider these provisions to be related to employment objectives. Rather, they are seen to be more efforts to encourage productivity and relieve bottlenecks in the transportation sector. For these reasons, we have not included them among our list of employment related tax expenditures.

3. The general excess of tax depreciation over book depreciation: This relates to the fact that the rates of capital cost allowance for calculating tax liability are generally greater than the amounts that corporations charge (and presumably believe) for depreciation in their accounts.

This excess represents a category of tax expenditure which is relevant for almost all sectors. The general purpose of such provisions is to stimulate aggregate demand in the economy. Employment is affected, therefore, to the extent that the increase in aggregate demand leads to a consequent increase in employment. The Department does not, however, regard the provisions as primarily employment directed, but view them more in terms of their impact on general business conditions. We agree with this and have not, therefore, included the amount in our list of tax expenditures directed toward employment creation.

The Resource Sector

1. Fast write-offs for Canadian exploration expenses: A Principal Business Corporation (PBC - a company whose principal business is mining, production or refining of petroleum products, processing mineral ores, operating an oil or gas pipeline or another prescribed activity) must deduct Canadian Exploration Expenses from any of their income as it is earned though the deduction cannot exceed the amount of that income. Non-PBC's can deduct unclaimed Canadian Exploration Expenses on either a 30 per cent declining balance basis or up to the amount of their resource income whichever is greater. A benchmark tax system would treat

Our discussion with the Department of Finance indicated that they did not regard these provisions as being directed primarily toward employment creation. Rather, their purpose is to stimulate a vibrant exploration climate. It was pointed out that stimulation of this type of activity for employment purposes would be an inefficient mechanism because of the capital intense nature of exploration and development. For these reasons, we have not included any of the above provisions in our list of employment oriented tax expenditures.

Regional Development

1. Portion of the Investment Tax Credit: That portion of the revenue cost of the investment tax associated with higher rates in specific regions is classified under regional development. As an incentive for taxpayers to invest in productive assets the Income Tax Act provides for a credit against tax otherwise payable. Between June 23, 1975 when the provision was first introduced, and March 31, 1977, the credit was 5 per cent of investments in new plant and machinery and equipment used in manufacturing and processing, farming and fishing, logging, grain storage, and the resource sector. In the budget of March 31, 1977, the credit was differentiated by geographic region with a basic value of 5 per cent, 10 per cent in the Atlantic Provinces and the Gaspe, and 7.5 per cent in other designated regions. Effective November 16, 1978, the three credit rates were increased to 7 per cent, 10 per cent, and 20 per cent respectively. In the recent budget, the rate for investment in the disadvantaged regions was increased to 50 per cent.

The Department of Finance indicated, and we agree, that the extra credit provided for disadvantaged regions of the country is very clearly intended to stimulate employment and hence, is included in Exhibit I. Disaggregated figures for the amount of total investment tax credits that relate to regional development are not available. The total value of the investment

tax credit for all of manufacturing, also included in Exhibit I and discussed below is $225 million for 1979.

2. Portion of the employment tax credit relating to higher sales in specific regions: The details of this item are discussed below under "Labour Force".

This item is very clearly intended to stimulate employment. As for the regional portion of the investment tax credit disaggregated figures are not available. The value of the total tax credit included in Exhibit I is $75 million.

Manufacturing Sector

1. Lower corporate tax rate on manufacturing and processing profits: The usual Federal rate of taxation on corporate taxes in Canada is 36 per cent for ordinary companies and 15 per cent for those eligible for special treatment as small businesses. For income which can be classified as generated from manufacturing and processing, the rates become 30 per cent and 10 per cent respectively.

2. Investment tax credit on manufacturing investments: The details of this item are discussed above under Regional Development.

3. Two-year write-off of assets purchased for use in manufacturing and processing: Machinery and equipment used in manufacturing and purchased after May 1972, is eligible for a two year straight line write-off for tax purposes.

4. Additional depreciation allowances on Canadian built ships: These are allowed a 33 1/3 per cent tax write-off in addition to the rate normally allowable for ships.

5. The Excess of Tax Depreciation over Book Depreciation on assets used in the manufacturing sector.

The Department of Finance indicated that all of the above items have been introduced to strengthen the manufacturing sector of the Canadian economy. One major reason why this is considered to be an important goal is the employment generation potential of the manufacturing sector. Hence, all of these items may properly be thought of as oriented toward employment creation and have been included in Exhibit I.

Research and Development

1. Immediate write-off of research and development expenditures: Current and capital research and development expenditures can be written off immediately in the year they are incurred. The benchmark tax system used for the tax expenditure account is assumed to provide for depreciation of these items at a rate of 20 per cent per year with the difference giving rise to a tax expenditure.

2.. Additional research and development allowance: Since 1978, taxpayers have been allowed to deduct an additional allowance of 50 per cent of the increase in their research and development expenses over the average of their three previous years expenditure levels.

3. Investment tax credit on research and development expenditures: In 1977, the investment tax credit was extended to cover current and capital expenditures on research and development.

Although it would appear that increased research and development is intended to stimulate employment in the long term through accelerated product development and innovation, the Department of Finance indicated that these incentives are also looked upon as devices to stimulate short term employment in the scientific and technology areas. Accordingly, we have included these items in Exhibit I.

Small Business

1. Lower corporate tax rate: Canadian controlled private corporations are eligible for a small business deduction which effectively lowers their federal tax rate to 15 per cent from the usual 36 per cent rate. The lower rate applies on up to $150,000 of active Canadian business income as long as the cumulative retained income of the corporation is less than $750,000.

This tax provision may be related to employment creation, but the linkage is not clear. The Department of Finance indicated its justification lies more in the area of equity considerations and in the desire to integrate personal and corporation taxes for privately controlled corporations. Accordingly, we have not included this item in Exhibit I.

Labour Force

1. Employment tax credit: Effective March 1979, employers who create new full-time jobs lasting at least three months and paying at least the minimum wage are eligible for a tax credit based on the number of new employees, the number of hours they work (to a maximum of 40 hours per week for up to 12 months) and the geographic region. The credit ranges from $1.50 per hour to $2.00 per hour depending on the geographic region.

This is clearly a program designed to stimulate employment and has been included in Exhibit I.

General Business and Investment Incentives

This category includes a wide variety of items. We discussed these tax expenditures with the Department of Finance who indicated that they are not considered to be employment generating items. Rather, they are based either

on equity considerations or are simply anomolies that have been in existence for a number of years. Accordingly, we have not included these in Exhibit I.

Income Maintenance

1. Exemption of clothing and footwear from sales tax.

Although the majority of items shown under income maintenance are based on equity considerations and are not considered by the Department to be primarily employment generators, we have included this particular item. The footwear and clothing sectors of the economy are the recipients of a wide variety of government programs designed to protect employment. It is our belief that although the exemption giving rise to this tax expenditure applies to foreign imports as well as domestic production, the policy cannot be separated from other programs designed to preserve and protect employment in these sectors.

Housing and Urban Renewal

1. Registered Home Ownership Savings Plans (RHOSP): Taxpayers are entitled to a tax deduction of up to $1,000 per year to a maximum of $10,000 for contributions to this type of plan. Income earned within the plan is also not taxable. The accumulated amounts can be withdrawn tax free to purchase a house.

2. Multiple Unit Residential Building (MURB): For buildings begun during a specified time period, this provision provides an exception to the provision that losses for tax purposes arising from the application of capital cost allowances to rental property income cannot be offset against other non-rental income. The program was renewed in the recent Federal Budget.

3. Reduced rate of sales tax on building materials: The current base rate of sales tax is 9 per cent. Building materials are taxed at a reduced rate of 5 per cent.

The three items noted above all have at least two purposes. They are meant to stimulate employment in the construction industry. It would appear, however, that their prime purpose is to provide housing to Canadians at reasonable prices. Accordingly we have not included these items in Exhibit I.

III - GOVERNMENT PROCUREMENT POLICY

The information in this section is based on an interview with a senior official of the Department of Supply and Service, and a review of documentation supplied by that department.

PURCHASES BY THE DEPARTMENT OF SUPPLY AND SERVICES (DSS)

In an "average" year, DSS purchases approximately $3 billion in goods and services in approximately 320,000 separate purchases. The "average" may be distorted for any one year by a particularly large individual purchase such as the Long Range Patrol Aircraft or the new Fighter Aircraft.

The Department estimates that the purchases fall into the following categories:

• directly purchased manufactured goods	50%
• manufactured goods purchased through a distributor	20%
• services	20%
• transportation, communications and utilities	8%
• other	2%

PROCUREMENT POLICY

The Department does have a policy to encourage the procurement of Canadian made goods and services and hence, sustain or create employment in Canada. How formal this policy is is another question. The Department states that guidelines have been developed quietly in order to avoid difficulties with our trading partners. Overall, the stated policy is "to acquire goods and services in the most economical manner possible."[1]

The general objective is, however, qualified to "take into account the contribution of procurement to national objectives" particularly the "maximization of value added to Canada of the quality and content of Canadian content of the total DSS buy."[1]

1 Internal Department Document

To this end, several sourcing policies are in place.

DSS Sourcing Policy SPM 2304

This policy sets out the priorities to be followed in seeking out vendors of products. In order of priority these are as follows:

- Canadian based manufacturers have the first priority. If there are three or more Canadian vendors, they are utilized exclusively and the item is not put to international tender.

- Canadian based distributors of Canadian manufactured products

- Canadian based distributors of foreign manufactured goods

- Foreign producers.

DSS Sourcing Policy DM 475

If in the opinion of a DSS product centre it makes "total economic sense" to source in Canada without going to international tender, this is permitted even if there are not three Canadian manufacturers. The only requirement is that the economic benefits of such a policy must be documented.

Cabinet and Treasury Board Specific Buy Orders

Several items must be sourced in Canada by order of either Treasury Board or Cabinet. These include:

- munitions
- ships
- food
- lightbulbs.

Exceptions to Normal Circumstances

For procurements in excess of $2 million or for "sensitive" items below that value, the purchase goes before a Procurement Review Committee. This committee is chaired by DSS and includes representatives from the customer department and from various economic ministries. The committee looks toward utilizing existing or developing new Canadian sources, and has the authority to direct the purchase to a Canadian supplier even in the face of a price premium. The result must be approved by the Treasury Board. At present, any price premium is paid by the customer department although a "Source Development Fund" is planned to pay this premium.

The above process is an innovation of the last ten months and has been applied to between forty and fifty purchases.

Contracting Out Research and Development

The policy of contracting out research to research institutes, universities, etc. was developed in 1972/73. Explicit in that policy is that except in rare circumstances, the work is to be done in Canada.

Ten Per Cent Preference Policy

For any purchase a 10 per cent premium can be added to the procurement price to make up for foreign content. That is if a 100 per cent Canadian good was competing against a 100 per cent foreign good, a premium of up to 10 per cent could be paid to obtain the Canadian good.

This policy is regarded as having little practical effect because in such circumstances SPM 2304 or DM 475 would probably direct the purchase to the Canadian supplier in any case.

Other Programs

The Department has what is known as its Subcontracting Program. On every contract over $2 million the contractor must indicate where he is placing sub-contracts. The idea is to attempt to direct more sub-contract work to Canadian suppliers.

On major foreign procurements such as the Long Range Patrol Aircraft or the new Fighter Aircraft DSS seeks contractual offsets. These may include:

- subcontracts in Canada on the specific purchase
- program related offsets
- non-program related offsets.

It is sometimes necessary to pay a premium in addition to the basic purchase price in order to obtain such offsets.

COST OF THE PROCUREMENT POLICY

No study of the total premium paid by the Canadian Government to implement the above procurement policy is available. The DSS official to whom we spoke provided the following rough estimate:

> He estimates the premium of purchasing Canadian manufactured goods to be 15 per cent to 20 per cent over the price that would be paid if they were purchased at international tender. For an average year when approximately 83 per cent of all purchases are made in Canada and 70 per cent are manufactured goods, a premium of 15 per cent would give rise to a net cost of around $250 million.

We are not able, of course, to comment on the validity of the above estimate.

IV - INDUSTRIAL ASSISTANCE PROGRAMS

The Government of Canada has, over the years, introduced several programs to aid Canadian industry. One of the major rationales for such programs is their employment effects - either in terms of overall job creation or in terms of the creation of employment in certain regions of the country. These programs may take the form of incentive grants, loans on concessional terms or loan guarantees. Programs which consist wholly of financing assistance are discussed in Section V.

In this section of our report, we review the major industrial incentive programs adopted by the Federal government. These programs are primarily administered by the Department of Industry Trade and Commerce (DITC) and the department of Regional Economic Expansion (DREE) with a few programs scattered through various agencies. We will review first those programs administered by DITC, second those carried by DREE and finally, those programs administered by other Federal departments. Some historical figures for the major programs are inclued in Appendix II.

PROGRAMS ADMINISTERED BY THE DEPARTMENT OF INDUSTRY TRADE AND COMMERCE

The programs administered by the Department of Industry Trade and Commerce include:

- The Defence Industry Productivity Program (DIPP)
- Programs to Aid the Shipbuilding Industry
- The Enterprise Development Program (EDP)
- The Footwear and Tannery Industries Adjustment Program

Defence Industry Productivity Program

DIPP is perhaps the oldest industrial assistance program operated by DITC, having arrived via the Department of Industry from the Department of Defence Production where it started in 1959. It is one of the largest grants and contribution programs with assistance averaging \$45-\$50 million annually and

EXHIBIT II

DEFENCE INDUSTRY PRODUCTIVITY PROGRAM
ASSISTANCE BY SECTOR
($000)

	1978/79	1977/78	1976/77	1975/76	1974/75
Aircraft	31,603	28,519	27,815	24,163	37,250
Electronics and Communication Equipment	11,332	7,778	10,251	8,902	8,941
Ships	-	2,161	2,245	1,950	889
Ammunition Explosive and Missiles	4,292	432	584	509	160
Combat Vehicles	403	864	1,171	1,017	16
Engineering Equipment	2,747	1,728	1,954	1,696	106
Other	1,823	1,728	880	763	638
Totals	52,200	43,210	44,900	39,000	48,000

EXHIBIT III

DEFENCE INDUSTRY PRODUCTIVITY PROGRAM
EXPENDIUTRES BY PROGRAM ELEMENT
($000)

	1978/79	1977/78	1976/77	1975/76	1974/75
Capital Assistance	6,278	4,305	5,509	5,938	6,435
Source Establishment	12,996	6,972	2,273	2,167	5,832
Research and Development	32,926	31,933	37,118	30,895	35,733
Totals	52,200	43,210	44,900	39,000	48,000

has provided close to two-thirds of a billion dollars of assistance to industry over 20 years. Assistance provided to the various industrial sectors for the preceeding five years is shown as Exhibit II, <u>opposite</u>.

The present program directive describes the objectives of the program as follows: "To develop and sustain the technological capability of the Canadian defence industry for the purpose of generating economically viable defence exports and related civil exports". This objective is currently interpreted quite literally. Generating economically viable exports, and thereby contributing to Canada's economic growth, is seen as the ultimate objective of the program. Employment created by individual projects funded is considered to be of great importance when evaluating requests for assistance.

In order to meet its objectives, the DIP Program supports three types of projects: Research and Development, Capital Assistance and Source Establishment. The amount of assistance provided for each type of project is shown as Exhibit III, <u>opposite</u>. Briefly, each of these three components of the program operate as follows:

- Research and Development; Under this heading, DIPP provides funds to firms to develop new products for export sales. The funds are provided as grants for a portion (usually 50 per cent) of the research and development costs. Most projects funded are of the developmental type rather than pure research.

- Capital Assistance; This portion of the program provides funding on a 50 per cent interest free loan, 50 per cent contribution basis for industry modernization. It is given to companies which need to upgrade their capabilities for producing defence and defence-related products. The need for modernization often arises where the company attempts to secure a United States Department of Defense contract.

- Source Establishment provides start-up costs to Canadian companies bidding on United States Department of Defense or other contracts. It covers, in particular, test and other equipment or services that may be contract related available from the Department of Defense to American companies but not to Canadian companies. This mechanism is also designed to allow Canadian companies to remain competitive.

Assistance to the Shipbuilding Industry

Assistance provided by DITC to the shipbuilding industry can be divided into two components: The Shipbuilding Industry Assistance Program (SIAP) and aid provided for the expansion of drydocks.

Shipbuilding Industry Assistance Program

This program provides subsidies for the construction of eligible Canadian ships (primarily ships over a certain size not intended to be used by their owners primarily for personal recreation). The program is justified both in terms of the need to protect and encourage employment and on strategic grounds (i.e. the need for Canada, a major trading nation, to maintain the capability to build its own ships).

The following figures represent total employment in the shipbuilding companies which are members of the Shipbuilders Association. According to DITC, they represent approximately 80 per cent of the total industry.

	1979
Pacific Region	2,323
Great Lakes	1,776
St. Lawrence	3,845
Atlantic Region	3,247
	11,191

It should be noted that not all of the above employment is related to subsidized projects. At any one time, many of the employees may be working on non-subsidized projects or on ship repair.

The construction subsidy under SIAP was originally set at 14 per cent of cost. In 1977, this was increased to 20 per cent. During 1980, the rate was reduced to 9 per cent with the 1981 rate set at 8 per cent.

SIAP also provides performance improvement grants for shipyards based on a 50/50 sharing ratio between the Crown and the shipyard. A shipbuilder who applies for a grant to build a ship under SIAP must submit to the Minister, a proposed plan for the improvement of his shipyard. Where the improvement plan is approved by the Minister, an improvement agreement is signed which provides for a grant equal to the lesser of 3 per cent of the approved cost of the eligible ship and 50 per cent of the cost of expenditure made by the shipbuilder in accordance with the improvement agreement.

Total expenditures made under the SIAP are as follows:

	($000)				
	1979/80	1978/79	1977/78	1976/77	1975/76
Grants	83,300	59,190	54,605	68,000	58,000

Aid for the Expansion of Drydocks

Under a new program, DITC will provide assistance for major drydock and ship repair facilities. Each case is assessed on its ability to make a major contribution to the economy of the area and of Canada. If the company is able to "prove" that they could expand and increase business but the project does not yield a sufficient rate of return, they are eligible for a grant. The percentage the grant may be is unspecified. On a recent project, a grant of $40 million was approved for a project with an estimated total cost over several years of $65 million.

The actual dock purchased does not have to be built in Canada but offsets are negotiated if a foreign unit is selected.

Actual grants under this program were approximately $35 million in fiscal year 1979/80.

The Enterprise Development Program

The overall objective of the Enterprise Development Program is to help the growth of the manufacturing and processing sectors of the Canadian economy by providing assistance to selected firms to make them more viable and internationally competitive. The program aims to foster innovation in the design and development of new or improved products or processes and to assist adjustments to changing competitive circumstances. The focus is on promising small and medium-sized firms prepared to undertake projects which are viable and promise attractive rates of return. The program is discretionary in that an applicant may meet all criteria and still not receive support if the Enterprise Development Board feels support is not appropriate.

The program directives do not refer to employment as an objective of the program but employment effects are considered when decisions to approve or not approve specific projects are made.

Eligibility

Small and medium-sized firms engaged in manufacturing or processing activities are eligible for assistance. Under limited circumstances those engaged in the service sector are also eligible. Applicants for product developments and product design assistance must be incorporated while firms applying for adjustment assistance need not be incorporated. The general eligibility criteria are that (1) the firm and the project must be viable (2) for loans and loan insurance, the firm must be unable to obtain financing on reasonable terms and (3) for grants, the project must represent a significant burden to the firm in relation to its resources.

Types of Support

EDP provides support to eligible firms by:

- Sharing project costs: For a typical shared cost project, the EDP can make a contribution of up to 75 percent of the eligible costs.

EXHIBIT IV

ENTERPRISE DEVELOPMENT PROGRAM
SUMMARY OF OPERATIONS 1979/80
($000)

Industry Group	Projects (Number)	Insured Loans Authorized	Actual Expenditures	Employment Estimates (new jobs created)
Mines	-	-	634	-
Gas and Oil	1	-	22	-
Food and Beverages	31	1,323	838	405
Rubber and Plastics	29	8,425	1,876	875
Textiles	6	700	228	13
Clothing	29	1,560	226	328
Footwear	21	2,775	181	232
Wood	28	1,625	134	484
Furniture	33	2,280	206	189
Paper	4	830	36	7
Ferrous Metals	14	3,600	91	465
Non-Ferrous Metals	5	30	465	266
Metal Fabricating	47	5,555	755	456
Machinery	92	11,084	3,740	1,865
Aircraft and Parts	17	81,665	1,459	34
Other Transportation Equipment	43	10,565	1,061	1,023
Electrical Products	107	9,200	11,416	3,340
Mineral Products	15	3,750	396	100
Petroleum Products	3	-	24	5
Drugs and Medicines	3	285	34	1,025
Other Chemical Products	23	1,869	931	237
Scientific Instruments	6	-	1,542	12
Other Manufacturing	27	680	1,050	90
Non-Manufacturing	3	8,500	77	-

- Providing insurance on a term loan to finance the project: Loan insurance, which helps to facilitate the availability of funds on reasonable terms and conditions, can be provided for 90 percent of a term loan from conventional lenders for a 1 per cent annual fee.

The above types of support are available for many different types of projects and situations. Briefly, these fall into the following categories:

- Grants to develop proposals for projects eligible for assistance; Grants can be provided to partially offset the cost of qualified consultants.

- Grants to identify new products; Grants can be provided to share the cost of qualified consultants engaged to identify new products through the research of product user requirements and to undertake related product and market testing.

- Grants for product development; Grants can be provided to selective projects concerned with the development of new or improved products and processes or service capability incorporating an advance in technology and offering good prospects for profitable commercial exploitation.

- Grants for product design; Grants are available to share the cost of the design of new or improved products. Such projects normally relate to durable products that are mass-produced by industrial processes.

- Grants to study productivity improvement projects; Grants can be provided to partially offset the cost of consultants qualified to conduct such studies.

- Loan insurance for adjustment projects; To facilitate restructuring or rationalization of manufacturing and processing firms in Canada loan insurance (guarantees) can be provided when usual sources of term financing are inadequate.

- The full range of EDP assistance is available to firms which may wish to take advantage of the broader export opportunities opened up by the Tokyo Round Tariff negotiations

Program Operation

Decisions on assistance are made by a Central Enterprise Development Board or by Regional Enterprise Development Boards located on each province. These boards all have strong private sector input.

Exhibit IV, opposite, summarizes the operation of the program for fiscal year 1979/80 including estimates of employment created by sector. All figures were supplied by DITC and the employment figures represent company estimates regarding employment as supplied to the Department at the beginning of the project.

The Footwear and Tanning Industries Adjustment Program

This small program operates as part of EDP and attempts to assist eligible footwear and tanning companies to become more competitive through restructuring their operations. The program will provide up to 80 percent of the cost of qualified consultants to perform operational audits and design restructuring programs. Once these are complete, loan guarantees are available to implement the restructuring plans. The maximum amount of grant that is permitted is $125,000 and the maximum loan guarantee is $1.5 million. In fiscal year 1978/79 grants amounted to $400,000 and loan guarantees to $6.8 million.

No estimate as to effects on employment is available although it should be noted that the result of a restructuring program may be to reduce employment. The program is viewed as strengthening employment in the long term.

THE DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

The Department of Regional Economic Expansion is directly concerned with employment creation in the disadvantaged regions of Canada. Its mandate is carried out through two policy instruments:

- The Regional Development Incentives Act (RDIA) whose stated purpose is to create jobs and to encourage capital investment.

- General Development Agreements which are designed to relate development strategies to provincial objectives.

Regional Development Incentives Grants

Types of Financial Assistance Available

There are two basic types of incentives available; development incentives and loan guarantees. Development incentives include:

- non-repayable development grants

- specifically repayable development incentives

- provisionally repayable development incentives (repayable if the project achieves a certain level of profitability or other objectives specified in the offer and accepted by the applicant)

Loan guarantees are available for manufacturing and processing and for certain commercial undertakings.

The incentives are available individually or in combination.

Eligibility

To be eligible for an incentive, a project must be located in one of the designated regions of Canada. Most manufacturing and processing industries are eligible for development incentives and loan guarantees. The major exceptions are initial processing operations such as petroleum refining and certain parts of the pulp and paper industry. The processing of natural products in operations such as sawmills, fish plants or food processing plants is eligible.

Commercial facilities are not eligible for grants but loan guarantees may be provided for business offices, warehousing and freight-handling facilities, shopping centres, convention facilities, hotel and motel accommodations, recreational facilities and research facilities.

Canadian ownership is not a prerequisite for the authorization of an incentive.

Calculation of Amount of the Incentive

Projects are divided into Categories A, B and C. Most Category A and B incentives are determined according to a standard formula, although exceptions are possible. Large projects (Category C) are analysed differently and a specific amount is determined according to the benefits and needs of the individual projects. The three categories are defined as follows:

- Category A - projects with approved capital costs of less than \$300,000 and fewer than 40 direct jobs;

- Category B - projects other than A cases, but with less than \$2 million in approved capital costs and fewer than 100 direct jobs;

- Category C - projects with at least \$2 million approved capital costs or 100 direct jobs.

The standard formula for Categories A and B are based on percentages of the approved capital costs and for certain regions the average of the approved annual wages and salaries paid during the second and third years after the commencement of commercial production. The formulae are as follows:

- New Facility or New Product Expansion;
  - Atlantic Region - 25 per cent of approved capital cost plus 30 per cent of annual wages and salaries;
  - Other Regions - 25 per cent of approved capital cost plus 15 per cent of annual wages and salaries;
- Modernizations or Volume Expansions;
  - All regions - 20 per cent of allowable capital costs.

There are limitations placed upon the maximum size of grant that may be provided. For new facility and new product expansion, the maximum grant permitted is the lesser of the following:

- 25 per cent of approved capital costs and $5,000 for each direct job created in the facility (the initial 20 percent of capital costs may not exceed $6 million);
- $30,000 for each direct job created;
- 50 per cent of the capital employed in the operation; or
- 80 per cent of the approved capital costs for most incentives determined by standard formulae. (In the case of the garment industry, the maximum is 40 percent.)

EXHIBIT V

REGIONAL DEVELOPMENT INCENTIVES CUMULATIVE STATISTICS SINCE THE PROGRAM'S INCEPTION

Industry Grouping	No. of Projects	Amount of Incentive Approved at time of Project Completion	Direct Jobs: Expected at Time of Offer	Direct Jobs: Actual Time of Project Completion
Food Industries	780	60.798	12730	7500
Fish Processors	237	24.891	7400	4180
Beverages	67	6.309	830	510
Tobacco	5	0.171	20	20
Rubber	266	24.281	6000	3620
Leather	73	4.953	2970	1450
Textile	230	28.190	7930	5210
Knitting	75	6.419	3450	2260
Clothing	210	13.890	12960	6820
Wood	1042	128.135	26000	15900
Furniture	277	16.726	6180	3490
Paper-Allied Industries	124	49.965	3960	2210
Pringing-Publishing	286	10.769	2990	2010
Primary Metals	171	76.887	7340	5810
Metal Fabricating	764	37.168	13580	5880
Machinery	367	24.564	10950	4220
Transportation	324	28.382	13980	9380
Electrical	184	22.595	8740	4180
Non-metallic	260	22.750	3800	1490
Petroleum	9	0.190	80	10
Chemical	182	32.665	4990	2040
Miscellaneous Manufacturing	226	13.203	5140	2140
Other Manufacturing	85	3.851	1060	310
TOTAL	6244	637.752	163080	90640

For modernization and volume expansion, the lesser of the following represents the maximum grant that will be provided:

- 20 per cent of the approved capital costs; or
- $6 million

Development incentives are exempt from income tax. However, for capital cost allowance purposes, a non-repayable grant decreases the amount of the assets available for capital cost allowance.

Operations

Incentives have been given to a wide range of companies in many different industries. Exhibit V, opposite, represents the results of the program from July 1, 1969 to March 31, 1980 as provided by the Department. No direct jobs have been included for projects which did not reach completion.

Loan Guarantees

The loan guarantee program was included in the RDIA program to assist entrepreneurs obtain adequate debt financing for projects located within the designated regions. A loan guarantee ensures the lender of repayment of up to 90 percent of the regional amount of any loan. It is not a guarantee of prompt payment but a guarantee against loss. The percentage of a loan to be guaranteed and the type of guarantee extended are matters for the negotiation by the lender, the applicant and the department.

Two types of loan guarantee agreements are used. Each type guarantees the repayment of a certain prenegotiated percentage of the loan but differs in its manner of application. The two types of guarantee are:

- Shared Risk; Under a shared risk guarantee the lender is protected for a specified percentage (up to 90 per cent) of any loss on a loan after liquidation of all security.

- Incremental; Under this type of guarantee, the department and the lender do not necessarily share all losses. The department will pay 100 per cent of any loss sustained up to a pre-negotiated maximum dollar amount. The maximum amounts cannot exceed 33 1/3 per cent of the loan balance where the term is five years or less and 25 per cent of the loan balance where the term is more than five yars. Any losses beyond the guaranteed portions are absorbed 100 per cent by the lender.

Terms on a loan are a matter for mutual agreement between the applicant, the lender and the department. The Act precludes a loan guarantee if the loan exceeds 80 per cent of the estimated total capital costs, after deducting the DREE development incentive or assistance from other government agencies.

Tenders are required to pay the department a fee of one per cent per annum calculated in the declining monthly balance of the portion of the loan which is guaranteed.

General Development Agreements

Since 1974, General Development Agreements (GDA's) have been signed with all provinces except Prince Edward Island, which signed a 15-year Comprehensive Development Plan in 1969. The stated purpose of these GDA's is to enable the Federal Government and the provinces "to co-operate in improving the number and quality of, and access to, long-term employment opportunities".(1) The agreements contain brief references to the economic background of each province, record agreed development objectives for the province and outline the strategies required to meet the objectives.

(1) Federal Provincial Subsidiary Agreements - Summaries
Regional Economic Expansion May 1979 - Page 5

The vehicles by which the strategies and objectives of the GDA's are to be met are subsidiary agreements, which are signed with each province as a follow up to the GDA's where initiatives are to be undertaken by both Canada and the province.

The subsidiary agreements cover a wide range of projects many of whose relationship to employment creation is very tenuous. On the other hand, some projects are very directly related to employment creation and provide for either direct grants to industrial installations or "grants-in-kind" of the infrastructure required for the operation of the factory.

To illustrate this type of employment-creation instrument the following sections describe four major subsidiary agreements which are directly related to employment creation:

- Canada/Newfoundland Subsidiary Agreement for the Stephenville Mill Conversion

- Canada/Nova Scotia Subsidiary Agreement for Assistance to Michelin Tires (Canada) Ltd.

- Canada/Quebec Subsidiary Agreement for the Establishment of the Donohue Saint-Felicien Bleached Kraft Pulp Mill

- Canada/Quebec Subsidiary Agreement for the financing of the 1974-1978 Sidbec Expansion Plan

The Stephenville Mill Conversion

Labrador Linerboard Limited operated a linerboard mill at Stephenville. This mill ceased operations in the early 1970's. The Government of Newfoundland entered into an agreement with the Abitibi Paper Company under which the shares of Labrador Linerboard Limited were sold to Abitibi on the condition that a newsprint mill would be established in Stephenville utilizing the Labrador Linerboard mill and properties.

In 1979 Regional Economic Expansion (representing the Government of Canada) entered into a subsidiary agreement with the Government of Newfoundland under the 1974 General Development Agreement. The stated objectives of this subsidiary agreement were;

> "to facilitate socioeconomic development and to improve the real standard of living in the Stephenville area of Newfoundland by participating in the conversion and reactivation of the former Labrador Linerboard Limited manufacturing facility, and thereby:

(a) reserve and strengthen the economy at Stephenville and its adjacent areas;

(b) create stable new employment in the converted Stephenville mill, in the wood harvesting operations serving the mill, and indirectly in other elements of the business sector in the area;

(c) provide means to increase the utilization of the forest as a major renewable resource of the province."

As indicated from the above, employment creation is one of the major objectives of the Agreement.

The Agreement provided for a $15 million grant towards the total cost of conversion and reactivation of the mill with a federal share of 90 per cent or $13.5 million. The grant was provided for purchasing and installing equipment, building modifications, the rehabilitation of the existing pollution abatement facilities and the conversion of the existing process to newsprint production.

Michelin Tires (Canada) Ltd.

In June of 1980 Regional Economic entered into a subsidiary agreement with Nova Scotia to assist the enlargement of Michelin Tires (Canada) Ltd. in Nova Scotia. The objectives of the agreement are:

- to enable Michelin to employ, in its Nova Scotia facilities, the equivalent of an additional 1,850 persons;

- to induce the Company to make new capital investment in Nova Scotia of approximately $400 million; and

- to increase significantly the value added in the Nova Scotia manufacturing sector.

The Agreement provides for a total grant to the company of $56 million with a federal share of 75 percent or $42 million.

The grant is to be used for such capital expenditures as are necessary to bring the proposed new facilities into operation.

The Saint-Felicien Pulp Mill

In April of 1976 DREE entered into a subsidiary agreement with the Province of Quebec to assist Donohue Saint-Felicien Inc. to establish a bleached kraft pulp mill. The specific purpose of the agreement was to enable the company:

- to set up a bleached kraft pulp mill having an annual capacity of 262,000 tons; and

- to modernize its sawmills and consolidate employment in the sawmills of the Lac Saint-Jean region.

The total grant was to equal no more than $50 million with a federal share of 60 percent or $30 million. The grant was to be paid progressively as the work advanced, in the form of capital investments spread over the period from 1976 to 1980.

Sidbec Expansion Plan

On March 15, 1974 the Government of Canada as represented by the Minister of Regional Economic Expansion entered into a subsidiary agreement with the Government of Quebec to assist with the proposed expansion of the Sidbec Corporation. The stated objectives of the agreement were to enable Sidbec:

- to increase its production capacity so that it can secure a greater share of the present market, and of expected growth in that market;

- to further rationalize its production methods so that it can increase productivity and benefit from the new technology it has adopted;

- to diversify its products in order to achieve a substantial increase in profits;

- to receive substantial financial support from Canada and Quebec in the form of grants, investments and loans.

It should be noted that employment creation was not specifically mentioned in the Agreement.

The agreement provided for a maximum federal grant of $30 million. The Province of Quebec contributed $8.6 million under the Agreement. The funds were to assist with the Company's 1974-1978 capital expenditure program.

OTHER FEDERAL ASSISTANCE PROGRAMS

This section briefly reviews industrial assistance programs offered by Federal Agencies other than DITC and DREE which may be viewed as having employment creation or the maintenance of employment among their goals.

Industrial Adjustment Assistance Program

This program is administered by Labour Canada and is designed to facilitate employment adjustment among firms in the textiles, clothing, footwear and tanning industries. It provides extended income support to workers affected by major employment disruptions directly associated with import competition.

Expenditures under the program in the 1978/79 fiscal year were $2.5 million.

Programs of the National Research Council

The National Research Council (NRC) has various programs to encourage research and development. These are not generally regarded as having employment creation among their prime goals. One of the purposes of supporting research and development is, however, to encourage long term economic growth for the purposes of providing employment. It is also sometimes felt that the creation of research and development jobs is itself a goal of these programs. The following sections briefly review:

- the Industrial Research Assistance Program;
- the Program for Industry Laboratory Projects;
- the Project Research Applicable in Industry Program;
- the Scientific and Technical Employment Program;

Industrial Research Assistance Program (IRAP)

IRAP encourages applied research in Canadian industry with the objective of increasing the calibre and scope of industrial research and development done in the business environment. To this end the program pays the salaries of qualified individuals working on approved projects along with the companys' share of standard fringe benefits. The companies must pay the remainder of the project expenses which are usually roughly equivalent to the IRAP contribution. Companies are responsible for the performance of the research and its commercialization. They are required to undertake the exploitation of the research results in Canada but they retain the sole right to the results.

Grants in the 1978/79 fiscal year amounted to approximately $18 million.

Program For Industry Laboratory Projects (PILP)

PILP aims to bring about the application and use of National Research Council research results and know-how in Canadian industries.

It is directed to cases which appear to represent significant industrial opportunities and in which the initial uncertainties inhibit development by industry alone.

The 1978/79 budget for the program was $8.3 million.

The Project Research Applicable in Industry Program

Under this program grants are awarded to capitalize on advances in university research showing potential for eventual commercial exploitation in Canada. The grants provide financial support for the further development of eligible projects in university laboratories to the point at which they can be transferred to industry.

Grants amounting to $600,000 were awarded in fiscal year 1978/79.

Scientific and Technical Employment Program (STEP)

Through this program the Government encouraged improvement in the scientific and technological training levels in business through programs of salary subsidies. It encouraged the hiring of unemployed scientists, engineers and technicians. The STEPEX program extended STEP to allow the subsidization of research personnel hired by universities and research organizations to carry out projects for private sector firms.

Assistance was normally limited to $8,100 per person employed although if there was the liklihood of the proposed employment creating jobs either directly or indirectly in the applicant company as in other companies, the salary assistance could be increased to $14,000.

The 1978/79 expenditures for the program were $5.5 million and the program terminated in 1979.

V - FINANCING PROGRAMS

This section discusses programs of the Federal Government to provide financing for business at concessional rates or on terms that would not normally be acceptable to a commercial lender. While these programs may not be directly related to job creation they are often justified by their beneficial effects in this area.

The following sections will discuss The Federal Business Development Bank (FBDB), the Small Business Loans Act (SBLA) and the Export Development Corporation (EDC). Historical figures for these activities are included in Appendix II. Other programs which provide financing for businesses generally operate in conjunction with grant programs. These programs are discussed in Section IV of this report.

FEDERAL BUSINESS DEVELOPMENT BANK

Role

The FBDB views its role as encouraging "the establishment, growth and prosperity of businesses of almost any type and size, all across Canada". They place special emphasis on helping to meet the needs of smaller businesses. Their mandate is to supplement other lending institutions while at the same time be self-sustaining. For this reason every time they are approached by a potential client, they approach that client's bank; both to make enquiries, and to ascertain whether or not the bank would be interested in handling the business. For loans of over $100,000 they require the applicant to demonstrate that he has approached at least two other lending institutions and been turned down.

Services Offered

Term Loans

Term loans are available to:

- assist in purchasing fixed assets;
- replenish working capital when this has been depleted through capital expenditures or other reasons;
- increase working capital to finance increasing sales;
- refinance existing loans where the existing terms and conditions are too stringent for the business to meet;
- assist in financing the purchase of an existing business;
- assist in the development of land for residential purposes;
- assist in financing various other business proposals.

The FBDB stressed that in deciding whether or not to make a loan they look at the same commercial criteria as do other lenders. This includes such things as management capability, repayment ability, security and outside investment in the project. The taking of security is flexible and generally consists of a mortgage on the business' fixed assets, and/or a floating charge on the business' other assets.

Interest rates are generally in line with those charged by commercial institutions. At the time of our meeting with the FBDB (October 1980) they stated that their current rate was 17 3/4 per cent as compared to a prime rate of 16 3/4 per cent for a major commercial lender.

EXHIBIT VI

FEDERAL BUSINESS DEVELOPMENT BANK
STATEMENT OF ACCUMULATED PROVISION FOR POSSIBLE FUTURE
LOSSES IN LOANS AND INVESTMENTS

	1980	1979
Balance, beginning of year	$58,000,000	$56,500,000
Recovery of amounts previously written off	502,000	301,000
Amounts written off during the year	(19,439,885)	(13,246,660)
Additional provision required to provide for possible future losses	43,737,244	18,439,586
Portion of the above additional provision applied directly against the cost of investments	(800,000)	(4,000,000)
Balance, end of year	$82,000,000	$58,000,000

Repayment terms are flexible and depend upon the purpose of the loan and the business' ability to repay. A variety of methods are used such as blended (principal and interest), straight-line stepped or seasonal payments. Interest must be paid every month. Most loans have a ten to fifteen year term but longer terms are granted.

The bank stated that approximately 40 per cent of their loans experience difficulty during the term of the loan. The bank's loss experience on loans for 1978 and 1979 is shown as Exhibit VI, opposite.

Interim (Bridge) Financing

The purpose of this type of loan is to:

- provide building contractors or commercial developers with funds to proceed with a program pending disbursements of funds from a term lender;

- provide funds pending a disbursement of a grant from DREE or other federal or provincial government agency.

Interest rates are 3 per cent above the FBDB standard rate; interim financing for DREE or other federal or provincial grants is exempt from this additional rate of 3 per cent. A standby fee of 3 per cent per annum is also applicable, pending draw down of the loan proceeds by the business.

Repayment terms are flexible to coincide with receipt of funds from the term lender or government agency with a maximum term of one year. Security required is generally the same as for FBDB term loans.

Loan Guarantees

Guarantees are provided to chartered banks or other financial institutions to enable a business to obtain a full operating line of credit or to increase its operating line of credit where it would not be available without such an FBDB guarantee. A commission of 3 per cent per

annum on the maximum amount of the FBDB's contingent liability under the guarantee is payable each month. The guarantee is usually for one year or less with extensions considered, depending on individual circumstances. Security requirements are generally the same as for term loans.

Equity Financing

The FBDB will consider equity financing at various stages in a company's development for a variety of purposes including:

- start-up of a new company;
- product development;
- increased production capability;
- acquisition of another company.

Such equity financing is designed to enable a company to maintain its financial equilibrium in a growth period, or to achieve completion of high risk projects more quickly.

Non-Financial Services

The FBDB offers a variety of non-financial services to the business community. These include management counselling, management training and information services.

Operations and Financial Structure

The FBDB does not have specific social or non-commercial objectives. However, employment effects are considered and often mentioned in loan submissions, etc.

EXHIBIT VII

FEDERAL BUSINESS DEVELOPMENT BANK
OPERATING STATISTICS

	1980	1979
Loans Authorized:		
number	16,571	12,271
amount	$ 866,432,000	$ 668,593,000
Amount outstanding or committed to loan customers at March 31	$2,216,061,000	$1,853,326,000
Investments Authorized:		
number	83	73
amount	$ 14,218,000	$ 18,361,000
Amount outstanding or committed to investment customers at March 31	$ 35,565,000	$ 27,374,000
Net Income (Loss)	$ 29,309,716	$ 514,381

EXHIBIT VIII

FEDERAL BUSINESS DEVELOPMENT BANK
CLASSIFICATION OF LOAN APPROVALS BY
TYPE OF BUSINESS

	Number		Amount ($000)	
	1980	1979	1980	1979
Manufacturing:				
Foods and Beverages	337	275	$ 32,941	$ 18,734
Rubber products	21	11	2,379	984
Leather products	45	35	2,844	2,155
Textile products (except clothing)	85	44	5,020	2,540
Clothing (textiles and furs)	140	86	7,648	3,825
Wood products	684	424	42,174	31,516
Paper products (including pulp)	41	47	3,567	5,721
Printing and allied industries	330	218	13,675	7,686
Iron and steel products (including machinery and equipment)	777	520	54,180	38,772
Transporation equipment	162	105	10,015	7,447
Non-ferrous metal products	19	15	2,160	903
Electrical apparatus and supplies	135	79	9,179	4,787
Non-metallic mineral products	191	153	11,657	13,891
Products of petroleum and coal	8	-	655	-
Chemical products	96	44	7,121	4,757
Miscellaneous manufacturing industries	354	266	20,777	14,863
Commercial air services	59	51	7,441	4,843
Warehousing (including refrigeration)	20	20	3,533	2,481
Other transportation and storage	533	328	24,815	15,086
Electric power, gas, water utilities	48	37	2,571	2,260
Mines (including milling), quarries, oil wells	86	55	5,359	4,471
Construction	973	650	40,882	36,376
Industrial buildings	441	457	40,681	41,027
Personal services	237	140	5,813	4,444
Forestry	239	127	8,365	5,293
Wholesale trade	904	672	48,793	35,526
Retail trade	4,643	3,560	163,626	128,327
Education and health services	120	75	5,111	3,961
Recreation services	278	220	22,328	20,418
Services to business management	473	278	16,116	9,943
Miscellaneous services	496	321	15,844	12,324
Agriculture	496	408	32,041	28,638
Fishing and trapping	79	48	3,794	1,796
Communications	39	20	3,470	1,855
Laundries, cleaners and pressers	226	187	8,368	7,046
Restaurants and other eating places	2,067	1,655	105,699	81,552
Hotels, motels and other lodgings	599	549	70,691	58,549
Theatres, bowling alleys, billiard halls	90	91	5,099	3,796
	16,571	12,271	$866,432	$668,593

EXHIBIT IX

FEDERAL BUSINESS DEVELOPMENT BANK
DEBT/EQUITY STRUCTURE

	(millions of) 1980	$	1979
Debentures Outstanding (held by the Bank of Canada)	302.7		474.1
Notes Held By Canada	1,073.0		876.0
Notes Payable Other Than Canada	230.0		-
Capital Paid in by Canada	184.0		136.0
Retained Earnings	15.9		45.2

The basic operating statistics for the bank for 1979 and 1980 are shown as Exhibit VII, opposite. Loans are made in almost all sectors of the Canadian economy. Details as to loans by sector are shown as Exhibit VIII, opposite. Figures as to job creation either by sector or in total are not available.

The FBDB is a wholly-owned subsidiary of the Government of Canada. Its operations are financed by equity investments by the Government and by debentures or notes payable. The debentures are all held by the Bank of Canada and until recently the notes payable were all held by the Government of Canada.

Approximately 18 months ago the FBDB was told by the Government to meet their needs from the private capital market. This has tended to push up the rate of interest they must pay to meet their capital requirements. In future they will be faced with the prospect of replacing funds previously borrowed from the Government with funds borrowed in the private market where, although they have a government guarantee, the rate is higher than they have previously had to pay on funds borrowed directly from the Government.

This need to meet their requirements from the private capital market combined with the generally marginal nature of the FBDB's loan portfolio is likely to result in a continuation of pressure on the bank's profitability. The Government has recently proposed legislation which provide for either the infusion of $75 million in additional equity to the bank or will allow it to increase its debt equity ratio to 12:1.

Exhibit IX, opposite, shows the banks current debt/equity structure.

SMALL BUSINESS LOANS ACT

Background

To encourage a greater flow of term funds from the private sector to small business, the Small Business Loans Act was brought into effect in January, 1961. The Act authorizes the Minister of Industry, Trade and Commerce to guarantee against loss, loans made to businesses by chartered banks, Alberta Treasury Branches and other lenders, designated by the Minister.

EXHIBIT X

SMALL BUSINESS LOANS ACT

LOANS BY TYPE OF BUSINESS

1979

	Amount (000,000$)
Wholesale Trade	9.6
Retail Trade	64.8
Construction	27.0
Manufacturing	34.1
Service Businesses	95.9
Transportation	24.7
Communications	2.5
Totals	258.6

Loan guarantees are available for new and existing small business enterprises. For purposes of the program a small business is defined as one whose annual gross revenues do not exceed $1.5 million during the fiscal period in which the application is made. In the case of a new business, it is an enterprise whose estimated gross revenue in the first fiscal period, not less than 52 weeks, does not exceed $1.5 million.

Eligibility

Loans can be made to small business enterprises in manufacturing, wholesale or retail trade, service businesses, construction, transportation, communications or real estate. Insurance agents or brokers are also eligible. Loans cannot be made:

- to businesses engaged in finance or in a profession;
- to non-profit organizations;
- for working capital requirements;
- for repayment of existing debt.

The purpose for which loans are available are:

- the purchase of fixed or movable equipment;
- the purchase or construction of new premises or the improvement or modernization of existing premises;
- the purchase of land;

Terms and Conditions of Loans

The maximum amount a small business may have outstanding under the Act at any one time may not exceed $100,000. Subject to this maximum, loans can be used to finance up to 80 per cent of the cost of fixed or movable equipment or 90

per cent of the cost of the purchase or construction of new premises or the purchase of land, or the renovation or improvement of existing premises.

The rate of interest on guaranteed loans is set at 1 per cent above the prime lending rate of the chartered banks. The maximum term of a loan must not exceed 10 years and installments must be paid at least annually. All loans must be secured. Security can take the form of land or chattel mortgages or other security deemed necessary by the lender. The borrower is also required to sign a promissory note.

Lenders are expected to make loans with the same care as is taken in the conduct of their ordinary business and to use normal commercial lending practices in drawing up agreements and in servicing the loans.

Summary of Operations

During the year ending December 31, 1979, 10,475 loans amounting to $258,631,119 were guaranteed. Of the total amount lent in 1979, $146.3 million or 56.6 per cent was used to purchase moveable equipment; $79.0 million or 30.6 per cent for alteration, construction and purchases of premises; $28.5 million or 11.0 per cent for fixed equipment; $4.7 million or 1.8 per cent to purchase land. A summary of loans by type of business is shown as Exhibit X, opposite.

Since inception of the program to December 31, 1979, a total of 65,845 loans amounting to $1,031,655,625 have been made. During the same period payments were made to lenders under the guarantee provision in respect to 687 claims amounting to $5,841,561 and recoveries were effected in the amount of $153,128.

THE EXPORT DEVELOPMENT CORPORATION

Background and History

The Export Development Corporation is the successor to the Export Credits Insurance Corporation (ECIC) which was established by Act of Parliament in 1945. The Export Credits Insurance Act anticipated the re-emergence of a

buyer's market, when normal trading conditions would re-assert themselves and the ability to provide credit terms would be a necessary competitive tool. The ECIC supplied export credits insurance which provided protection against non-payment by foreign buyers, and thus facilitated bank financing.

By 1960 the demand for long-term credit for capital projects led Parliament to amend the Act by adding a long-term financing facility to the corporations powers. This service was established to help Canadian capital goods manufacturers and consulting engineers retain their competitiveness in world markets.

In response to changing world conditions Parliament passed a new act in 1969. Notably changed under the new Act was the EDC financing facility. All loans prior to October 1, 1969 were made for the government account and funded by borrowings from the Consolidated Revenue Fund. Under the Export Development Act, the loan service became the responsibility of the Board of Directors of EDC. The government account remained for "national interest" lending to be administered by EDC. The Act also added a new service; foreign investment insurance.

During 1977 and 1978, two other major facilities were added; insurance and guarantees were provided with respect to bid and performance securities by banks and surety companies.

While the EDC is not specifically viewed as an employment related agency exports have always been regarded as important for the maintenance and creation of jobs in Canada. As discussed in a subsequent section of this report the EDC does regard the encouragement of Canadian content in exports and the consequent effects on employment as important considerations. To this extent, therefore, EDC's operations have been seen as designed to stimulate employment.

Services Offered

Insurance

Canadian firms of any size can insure their export sales against non-payment by foreign buyers. EDC normally assumes 90 per cent of the commercial and political risks involving insolvency or default by the buyer as well as blockage of funds, war or rebellion, cancellation of import licences, and the like, in a foreign country, and cancellation of export permits in Canada.

Almost any kind of transaction involving the export of goods, services or technology may be insured. The services available are:

- short-term global shipments insurance which covers from the time of shipment until payment is received;

- short-term global contracts insurance which covers from the time an order is received until payment is received and is designed for the exporter manufacturing to buyer's specification;

- short-term global sources insurance which covers from the time services are performed until payment is received;

- medium-term specific transaction insurance which covers individual transactions of capital goods and services either from the effective date of contract or the shipment of goods until payment is received;

- loan pre-disbursement insurance which covers the production risk from the effective date of financing until disbursement under the loan agreement is made;

- foreign investment insurance which covers for periods of up to 15 years against three broad political risks; inconvertibility or the inability to repatriate earnings or capital expropriation, and war or revolution;

- performance security insurance covering the exporter against a wrongful call by a foreign buyer of an Irrevocable Letter of Credit provided by the exporter's bank in favour of the exporter;

- consortium insurance protecting members of an exporting consortium against the call of a performance instrument where the other members of the consortium are unable to pay their shares;

- surety bond insurance insuring a domestic surety company in providing a performance bond to a foreign buyer.

Premiums are charged for the insurance provided.

Guarantees

It is EDC's stated policy to achieve maximum private sector involvement in Canadian export financing. EDC provides, therefore, 100 per cent guarantees to banks and financial institutions without recourse to them in order to facilitate the exporter's banking arrangements.

Where export insurance is involved, EDC will agree to pay any proceeds payable under an exporter's policy to a bank or other financial organization providing finance in respect of the sale. The corporation also issues guarantees to banks making export loans or issuing performance and bid securities. The following are the guarantee programs offered:

- medium-term specific transaction guarantees provide banks and other lenders with an unconditional coverage on non-recourse supplier financing. The capital goods and services sale must be insured by EDC;

- performance security guarantees covering a bank or other financial institution against a call of security - usually an irrevocable letter of credit - issued to a foreign buyer on behalf of a Canadian exporter;

- end security guarantees covering a bank providing end security to a foreign buyer on behalf of a Canadian exporter;

- loan guarantees to banks and financial institutions providing loans to buyers of Canadian capital goods and services.

Loans

EDC makes long-term loans, at both fixed and floating rates, to foreign buyers of Canadian capital goods and services. Funds are paid directly to Canadian suppliers on behalf of the borrower, in effect providing the exporters with cash sales.

The Corporation considers all projects which on their own merits and within the framework of internationally-accepted practices, normally justify financing for periods of five years or more and provide significant benefits to Canada. EDC seeks the maximum involvement of banks and other financial institutions, consistent with the requirements of international competitiveness. Under this program the Corporation has extended lines of credit to a number of countries.

Canadian Content Requirements

In pursuing its corporate purpose of facilitating and developing Canada's export trade, EDC considers that the optimization of the Canadian content of Canadian exports is one of its major objectives. It seeks to achieve this

EXHIBIT XI

THE EXPORT DEVELOPMENT BANK
EXPORTS INSURED AND GUARANTEED -
1979 BY COMMODITY

	Amount (000$)
Forestry Products	$ 712,426
Other Manufactured Products	250,056
Agricultural and Animal Products	51,673
Services	151,601
Machinery	467,722
Minerals, Metals and Chemicals	206,738
Transportation Equipment	123,171
Textiles, Related Products and Consumer Goods	71,732
Electronic Equipment	49,810
TOTAL	$2,084,929

EXHIBIT XII

THE EXPORT DEVELOPMENT CORPORATION CORPORATE ACCOUNT
STATEMENT OF INCOME

	1979	1978
Loans and Guarantees		
Interest earned	$193,641,000	$153,864,000
Fees earned	12,890,000	11,804,000
	206,531,000	165,668,000
Interest Expense	168,334,000	126,468,000
Provision for Loan Losses	5,815,000	3,728,000
	32,382,000	35,472,000
Insurance and Guarantees		
Premiums and fees earned	10,399,000	9,643,000
Provision for claims	8,095,000	2,192,000
	2,304,000	7,451,000
Investments		
Interest Earned	53,083,000	7,902,000
Interest Expense	30,943,000	9,351,000
	22,140,000	(1,449,0000)
	56,826,000	41,474,00
Administrative Expenses	14,641,000	9,744,000
Net Income	42,185,000	31,730,000

objective by setting Canadian content criteria that must be met in order for the exporter to qualify for the various services offered by the EDC.

"Canadian Content" in this context is defined as the portion of the value of goods and services exported which is spent and retained in Canada and "therefore creates or maintains employment in Canada".[1] Consequently, the Corporation believes that the sourcing of goods from a Canadian address does not necessarily indicate Canadian content as this would depend on the extent to which payment for the goods was retained in Canada.

> "Optimizing the Canadian content of exports...contributes...to both the balance of payments and the employment objectives of Canada, and it is for this reason that EDC gives it such importance."[1]

Operations

Export transactions supported by financial arrangements with which EDC was associated in 1979 through its loans, insurance and guarantee services totalled \$3.7 billion. Of this amount, the Corporation's insurance services facilitated the sale of Canadian goods and services in the net amount of \$1.6 billion. (A further \$0.4 billion was both financed and insured). Lending transactions, excluding lines of credit, reached a total of \$2.1 billion in 1979. All borrowings during 1979 to fund the lending transactions of EDC were undertaken by the Corporation in its own name in the domestic and international money and capital markets.

A summary of exports insured and guaranteed in 1979 by commodity is shown as Exhibit XI, opposite.

The Corporation earned a profit in each of the last two years. The Statement of Income for the year ended December 31, 1979 and the preceding year is shown as Exhibit XII, opposite. The Government of Canada is the sole shareholder of the EDC and as of December 31, 1979 its equity investment totalled \$310 million with the Corporation having an additional \$150 million

1 EDC Information Circular No. 80-5.

in retained eanings. The Government has also provided an additional $790 million as at December 31, 1979 by way of loans to the Corporation. These loans bear interest at a variety of rates.

EXHIBIT XIII

AVERAGE SECTORAL TARIFF RATES FOR CANADA

No.	Description	Canada
1.	Grain	0.03849
2.	Fish Fur	0.00054
3.	Live Animals	0.03774
4.	Milk and Eggs	0.04371
5.	Feeds	0.09369
6.	Agricultural Needs	0.03010
7.	Tobacco	0.25754
8.	Meat and By Products	0.05563
9.	Poultry and Dairy	0.09546
10.	Oil Fats	0.06069
11.	Fish Products	0.05382
12.	Fruit and Vegetable Products	0.07864
13.	Cereal Products	0.13426
14.	Confectionary and Sugar	0.11307
15.	Non-Alcoholic Beverages	0.11855
16.	Alcoholic Beverages	0.13288
17.	Food Needs	0.06960
18.	Coal	0.0
19.	Crude and Natural Gas	0.01088
20.	Petroleum Products	0.07907
21.	Electric Power	0.0
22.	Gas and Utilities	0.00100
23.	Leather	0.16421
24.	Fabric Yarn	0.20419
25.	Synthetic Fibres	0.15889
26.	Textile Products	0.22771
27.	Clothing	0.25259
28.	Pulp and Paper	0.09043
29.	Paper Products	0.14472
30.	Printing and Publishing	0.04647
31.	Crude Wood	0.00003
32.	Wood Products	0.10169
33.	Non-Metal Products	0.07520
34.	Glass Products	0.10132
35.	Construction	N/A
36.	Rubber Products	0.13153
37.	Housing Chemicals	0.10519
38.	Paint and Other	0.06753
39.	Fertilizer and Industrial Chemicals	0.05040
40.	Plastic and Organic	0.09511
41.	Explosives and Inorganic	0.08695
42.	Plastic Products	0.13164
43.	Manufacturing Needs	0.17299
44.	Iron Ore	0.00032
45.	Other Metals Organic	0.00032
46.	Iron and Steel Products	0.08555
47.	Aluminum	0.04025

Source: A Structural Analysis of the Canadian Economy to 1990 DITC.

Average Sectoral Tariff Rates for Canada Cont'd

No.	Description	Canada
48.	Cop and Other Nf.	0.02656
49.	Boiler Plate	0.12643
50.	Miscellaneous Metal Products	0.09884
51.	Wire Products	0.08152
52.	Tools	0.10513
53.	Metal Equipment	0.12231
54.	Miscellaneous Metals	0.07924
55.	Non-Electronic Machinery	0.06091
56.	Appliances	0.13514
57.	Electronic Industrial Equipment	0.10625
58.	Electronic HH. Equipment	0.12230
59.	Prec. Instruments	0.06663
60.	Aircraft	0.03707
61.	Auto and Truck	0.03630
62.	Auto Parts	0.02221
63.	Rail and Other Vehicles	0.10600
64.	Ships	0.17311
65.	Transportation	N/A
66.	Communication	N/A
67.	Trade Services	N/A
68.	Service Needs	0.00235

VI - TARIFFS AND QUOTAS

Tariffs have long been used by the Federal Government to encourage the growth of certain industries and the related employment in Canada. Quotas are a more recent development and are generally used to sustain existing sectors of the economy when these are threatened by low cost imports. Such protection is usually justified by the need to protect employment in the threatened sectors.

TARIFFS

At the direction of the Canadian Employment and Immigration Commission we have limited ourselves to obtaining the average rate of tariff for the various protected sectors of the Canadian economy. These are shown as Exhibit XIII, opposite. It should be stressed that these rates are average nominal rates of protection for the various sectors and the effective rates for individual items may vary widely from the average.

It should also be noted that the average rate for clothing may be somewhat higher than that shown. In 1977 in conjunction with the imposition of the global quota an adjustment was made to increase the amount of duty paid on imports from Taiwan by 33 1/3 per cent and on imports from South Korea by 15 per cent. This was accomplished by multiplying the FOB value of items from Taiwan by 1.333 and using this amount as the base for tariff liability. For Korea, the base for the tariff was 1.15 of the FOB value. In January 1979, these adjustment factors were changed to 1.25 for imports from Taiwan and 1.15 for Korea. At the same time an adjustment factor of 1.25 was imposed on Hong Kong imports for the first time.

QUOTAS

Quotas are employed to protect four major sectors of the economy from imports - agricultural products, textiles, clothing and footwear.

Agricultural Quotas

Quotas imposed on agricultural products are closely linked to the activities of national marketing boards designed to limit overall supply. This is generally regarded as a method of improving the incomes of existing farmers rather than as a means to increase or protect employment. They are not dealt with further, therefore, in this report.

Imposition of Other Quotas

Quotas other than those on agricultural products result from an injury finding by either the Anti-dumping Tribunal or the Textile and Clothing Board. The power to impose them comes from Section 5 of the Import/Export Permits Act which gives the Governor-in-Council the power to place things on the list:

- to support other legislation
- to support intergovernmental arrangements
- to respond to an injury finding.

Once an item is on the list the Minister of Industry, Trade and Commerce has considerable discretion to issue permits, set quotas, etc. (This power of the Minister is currently under challenge before the courts.)

Quotas on Footwear

All footwear except those made out of canvas, rubber or plastic are subject to quotas. In a recent year imports restrained by quota represented approximately 50 per cent of the $500 million in imports of the type of goods that are subject to quotas. In 1978, the production and import picture was as follows:

	Pairs (000)
Total Including Exempt Categories	
Domestic Production	47,000
Exports	3,000
Domestic Retention	44,000
Imports	51,000
Sectors Subject to Control	
Domestic Production	43,000
Exports	2,000
Domestic Retention	41,000
Imports	34,000

In the same year employment in the footwear industry was estimated to be 16.8 thousand down from 21.1 thousand in 1970.

Quotas on Textile

Approximately 8 per cent of total textile imports are subject to quotas. In 1979 of $1.7 billion in textile imports, $137 million were in categories that are restrained by quotas.

As of June 30, 1980 Canada had bilateral restraint agreements with fourteen countries covering various categories of yarns and fabrics. These bilateral agreements negotiated between Canada and the producing countries give the latter the responsibility for assigning licenses among their manufacturers and exporters.

Employment in the textile and knitting industry was estimated to total 87 thousand in 1979 down from 99 thousand in 1973.

Quotas on Clothing

The clothing sector is perhaps the sector that is the most heavily protected by quotas. In 1979 of $.9 billion in clothing imports approximately $.5 billion were subject to quotas.

From 1970 to 1977, several clothing items were subject to voluntary quotas.[1] These were not particularly successful and broke down completely in 1976. In 1977, a global quota system was imposed on the imports of a number of clothing items. Licenses to import were issued to Canadian importers who were then free to find the manufacturer in the exporting countries who could produce the item on the most favourable terms for the importer.

In June 1978, the federal government announced that this form of quota system would be abolished in favour of a system of bilateral agreements between Canada and the most important of the low cost exporting countries. Initially, agreements were signed with the seven largest exporting companies, but by early 1980 the number of bilateral agreements signed by Canada had expanded to fourteen. No quotas were levied on the clothing imported from the U.S.A. and other high cost European producers.

These agreements set the maximum quantity of an item which can be exported from a textile or clothing producing country to Canada. The coverage of items varies widely across countries from the case of Hong Kong where a wide variety of items, classifed into 30 broad categories of textiles and clothing, are under quantitative control to cases such as Sri Lanka where only two classes of items are specified under the bilateral restraint of trade agreements.

As an operating rule in determining the level of the quota for any item, the negotiations of the agreements tried to set the quantities at 90 per cent of

1 Description from Costs and Consequences of the New Protectionism, Glenn P. Jenkins, the North-South Institute, Ottawa.

the 1975 level of shipments from the exporting country to Canada. Some flexibility was allowed, especially with countries which are new entrants into the market place.

In addition to the system of bilateral quotas, the Office of Special Import Policy has also initiated or threatened to initiate unilateral actions to prohibit the import of garments which are manufactured in countries not covered by a bilateral agreement, or garments which are not under quota in a country that has signed an agreement with Canada.

Employment in the clothing sector totaled approximately 95 thousand in 1979 down from 100 thousand in 1973, but up from 91 thousand in 1977.

Cost of Quota Protection

The budgetary cost of a quota system for footwear, textiles and clothing is limited to the administration costs which are not likely to be substantial. There is an additional cost, however, imposed on the consumer as a result of limitations on the import of these goods. We have made no independent effort to estimate this cost. Dr. G. Jenkins of Harvard University in a recent study[1] concluded the following as regards the clothing industry:

- in 1979, the first year the bilateral quotas were in existence Canadian consumers paid approximately $198 million more for clothing as a direct result of the quotas

- because the imported clothing subject to the quotas tends to be of lower quality and less fashionable, they are purchased to a large degree by the poorer segments of the Canadian population. At a minimum, the bilateral import quotas have cost the poorer households in Canada over three times as much, relative to their incomes, as they have high income households

- approximately 6,000 man-years of employment has been created per year by this policy. The cost to the Canadian consumer of sustaining employment in the sector by this policy has amounted to approximately $33,000 per job per year.

We cannot comment on the validity of the above estimates.

1 Description from Costs and Consequences of the New Protectionism, Glenn P. Jenkins, The North-South Insitute, Ottawa.

VII - MISCELLANEOUS PROGRAMS

The Government of Canada operates a wide variety of programs to assist and encourage the Canadian business community. These have not been dealt with in the preceding sections of this report because their relationship with employment creation is very indirect. We note them here for the information of the Department.

MARKET ADVISORY SERVICES

The Department of Industry, Trade and Commerce's Trade Commissioners Service and International Bureaux in Ottawa provide the focal point for federal advice on exporting. As a source to Canadian business, the Federal Government maintains trade commissioners in 67 countries around the world. The Trade Commissioner Service provides assistance to Canadian exporters and aids foreign buyers in locating Canadian sources of supply. The International Bureaux provide the following types of information:

- market information
- market access information
- publications.

EXPORT MARKET DEVELOPMENT

Trade promotion is encouraged through the Promotional Projects Program (PPP) and the Program for Export Market Development (PEMD).

Promotional Projects Program

This program encourages trade promotion through three general types of trade promotion techniques:

- Trade Fairs Abroad, for which a complete exhibition service is provided on a shared-cost basis;

- Trade Missions, covering travel and other costs for outgoing missions to negotiate trade agreements, and for incoming missions to promote Canadian products and capabilities; and

- Trade Visitors, covering travel and living costs for influential foreign representatives and technical trainees.

Program for Export Market Development

PEMD provides incentives for Canadian firms to enter new export markets or expand existing markets overseas or in the U.S.A. It provides up to 50 per cent of the costs of breaking into new markets incurred by:

- participation in capital projects abroad;

- market identification (visits by business people to new market areas);

- participation in trade fairs abroad;

- incoming buyer visits; and

- export consortium assistance (to promote small and medium-sized firms to form export consortia).

SELLING TO FOREIGN GOVERNMENTS

Assistance in obtaining procurement contracts with foreign governments is provided by the Canadian Commercial Corporation.

The Canadian International Development Agency administers Canada's international development assistance program. Canadian exports are promoted through bilateral aid, involving grants and loans.

APPENDIX I

TAX EXPENDITURE ACCOUNT

GOVERNMENT OF CANADA

TAX EXPENDITURE ACCOUNT

GOVERNMENT OF CANADA

Functional Category and Item	1976 Personal Income Tax	1976 Corporate Income Tax	1976 Commodity Tax	1979 Personal Income Tax	1979 Corporate Income Tax	1979 Commodity Tax
	($ millions)					
I. GENERAL GOVERNMENT SERVICES						
A. Legislation and Administration						
1. Political Contribution Tax Credit	2.4	0.5	-	N/A	N/A	-
2. Non-taxability of income from the Office of Governor General	S	-	-	S	-	-
3. Exemption of goods purchased by the Office of the Governor General from sales tax	-	-	S	-	-	S
B. Protection of Persons and Property						
1. Non-taxation of R.C.M.P. pension or compensation for injury, disability or death	0.1	-	-	0.1	-	-
2. Non-taxation of up to $300 of allowances to volunteer firemen	1.5	-	-	2.0	-	-

Symbols: N/A: Estimates not available.
- : Not applicable.
S : Estimates not available; revenue impact is expected to be small, less than $5 million.
* : Value included elsewhere.

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures			1979 Tax Expenditures		
	Personal Income Tax	Corporate Income Tax	Commodity Tax	Personal Income Tax	Corporate Income Tax	Commodity Tax
	($ millions)					
II. FOREIGN AFFAIRS						
1. Tax sparing for developing countries	-	N/A	-	-	N/A	-
2. Non-taxation of Special Allowances for Diplomats and other government employees posted abroad	N/A	-	-	N/A	-	-
III. DEFENCE						
1. Non-taxation of Veterans Allowances, Civilian War Pensions and Allowances, and other Service Pensions	60.0	-	-	75.0	-	-
2. Non-taxation of Service Pensions from another country	S	-	-	S	-	-
3. Non-taxation of income from War Savings Certificates	S	-	-	S	-	-
4. Exclusion of the research and development component of defence purchases from sales tax	-	-	N/A	-	-	N/A
5. Exemption of defence memorials and monuments from sales tax	-	-	S	-	-	S
IV. TRANSPORTATION AND COMMUNICATION						
1. Exemption of transportation equipment from sales tax	-	-	175.0	-	-	170.0
2. Investment tax credit on transportation equipment	-	-	-	-	30.0	-

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures			1979 Tax Expenditures		
	Personal Income Tax	Corporate Income Tax	Commodity Tax	Personal Income Tax	Corporate Income Tax	Commodity Tax
	($ millions)					
3. Exemption from branch tax for transportation and communication companies	-	S	-	-	S	-
4. Exemption of foreign shipping and aircraft companies from Canadian income tax	-	N/A	-	-	N/A	-
5. Immediate deductibility of labour costs on capital projects undertaken by railways	-	N/A	-	-	N/A	-
6. Additional depreciation allowances on railway system assets	-	-	-	-	12.0	-
7. Fast write-offs for communication satellites	-	*	-	-	*	-
8. Excess of the tax depreciation over book depreciation, General	-	140.0	-	-	175.0	-
V. ECONOMIC DEVELOPMENT AND SUPPORT						
A. Farming and Fishing						
1. Five-year block averaging for farmers and fishermen	5.0	-	-	N/A	-	-
2. Cash basis accounting	N/A	N/A	-	N/A	N/A	-
3. Flexibility in Inventory Accounting	N/A	N/A	-	N/A	N/A	-
4. Deferral of tax on capital gains on inter-generational rollovers of family farms	N/A	-	-	N/A	-	-
5. Additional depreciation allowance on grain storage facilities	-	*	-	-	*	-
6. Excess of tax depreciation over book depreciation, General	16.0	1.3	-	21.0	2.0	-
7. Investment tax credit on farming and fishing investments	36.0	0.9	-	50.0	10.0	-
8. Deferral of income on grain sales and from destruction of livestock	N/A	N/A	-	N/A	N/A	-

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures			1979 Tax Expenditures		
	Personal Income Tax	Corporate Income Tax	Commodity Tax	Personal Income Tax	Corporate Income Tax	Commodity Tax
	($ millions)					
B. Resource Sector						
1. Fast write-off for Canadian exploration expenses 2. Fast write-off for Canadian development expenses 3. 33 1/3 per cent earned depletion allowance	-	300.0	-	-	425.0	-
4. Additional earned depletion for heavy oil and tertiary recovery projects	-	-	-	-	N/A	-
5. Additional earned depletion on frontier oil and gas well exploration costs	-	-	-	30	70	-
6. Drilling funds	S	-	-	80	-	-
7. Accelerated depreciation for mining assets	-	52.5	-	-	70.0	-
8. Additional depreciation allowances on offshore drilling vessels	-	5.0	-	-	5.0	-
9. Excess of tax depreciation over book depreciation, General	-	165.0	-	-	215.0	-
10. Resource allowance and deductibility of provincial royalties for the Syncrude Project	-	0.0	-	-	0.0	-
11. Exemption of iron ore mining from branch tax	-	S	-	-	S	-
12. Taxation of sulphur production at manufacturing tax rates	-	-	-	-	N/A	-
13. Investment tax credit on resource investments	-	50.0	-	-	220.0	-
14. Non-adjustment of specific sales tax rate on gasoline	-	-	-	-	-	25.0
15. Capital gains treatment for prospectors and grubstakers	N/A	N/A	-	N/A	N/A	-
C. Regional Development						
1. Portion of investment tax credit	-	-	-	*	*	-
2. Portion of employment tax credit	-	-	-	*	*	-

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures: Personal Income Tax	1976 Tax Expenditures: Corporate Income Tax	1976 Tax Expenditures: Commodity Tax	1979 Tax Expenditures: Personal Income Tax	1979 Tax Expenditures: Corporate Income Tax	1979 Tax Expenditures: Commodity Tax
	($ millions)					
D. Energy Conservation						
1. Exemption of energy conservation goods and insulation materials from sales tax	-	-	20.0	-	-	10.0
2. Two-year write-off on energy conservation machinery and equipment	-	5.0	-	-	5.0	-
3. Non-taxation of Home Insulation Grants in Nova Scotia and Prince Edward Island	-	-	-	40.0	-	-
E. Manufacturing Sector						
1. Lower corporate income tax rates on manufacturing and processing profits	-	280.0	-	-	400.0	-
2. Investment tax credit on manufacturing investments	-	40.0	-	-	225.0	-
3. Two-year write-off on manufacturing and processing assets	-	320.0	-	-	425.0	-
4. Additional depreciation allowances on Canadian built ships	-	*	-	-	*	-
5. Excess of tax depreciation over book depreciation, General	-	70.0	-	-	100.0	-
F Research and Development						
1. Immediate write-off on R&D expenditures	S	40.0	-	S	65.0	-
2. Additional allowance of 50 per cent of incremental R&D expenditures	-	-	-	-	35.0	-
3. Investment tax credit on R&D expenditures	-	-	-	S	50.0	-
4. Non-taxation of non-profit scientific research corporations	-	N/A	-	-	N/A	-
5. Exemption of scientific apparatus from sales tax	-	-	N/A	-	-	N/A

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures			1979 Tax Expenditures		
	Personal Income Tax	Corporate Income Tax	Commodity Tax	Personal Income Tax	Corporate Income Tax	Commodity Tax
			($ millions)			
G. Small Business						
1. Lower corporate income tax rate	-	738.0	-	-	1,000.0	-
2. Deferral of up to $200,000 of capital gains on inter-generational transfers of small businesses	-	-	-	N/A	-	-
3. Preferential income tax treatment of certain stock options issued to employees of private corporations	-	-	-	N/A	-	-
4. Full offset of capital losses on private company shares and debt obligations	-	-	-	N/A	N/A	-
5. Special investment tax credit on R&D expenditures by small businesses	-	-	-	-	5.0	-
6. Sales tax exemption on up to $50,000 of manufacturing sales ($10,000 in 1976)	-	-	5.0	-	-	30.0
7. Non-taxation of provincial assistance for venture investments	-	-	-	0.0	0.0	-
H. Labour Force						
1. Deductibility of employer contributions to Deferred Profit Sharing Plans	-	N/A	-	-	N/A	-
2. Employment tax credit	-	-	-	S	75.0	-
3. Non-taxation of employee benefits in the form of subsidized loans (including housing loans within prescribed limits)	N/A	-	-	N/A	-	-
4. Non-taxation of employer premiums on group term life insurance of up to $25,000	N/A	-	-	N/A	-	-
5. Non-taxation of other non-monetary benefits of employment (e.g. employee discounts)	N/A	-	-	N/A	-	-

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures: Personal Income Tax	1976 Tax Expenditures: Corporate Income Tax	1976 Tax Expenditures: Commodity Tax	1979 Tax Expenditures: Personal Income Tax	1979 Tax Expenditures: Corporate Income Tax	1979 Tax Expenditures: Commodity Tax
	($ millions)					
I. General Business and Investment Incentives						
1. Investment tax credit not included elsewhere	5.0	10.0	-	30.0	100.0	-
2. Non-taxation of one half capital gains income	170.0	130.0	-	280.0	225.0	-
3. Non-taxation of realized capital gains income accrued prior to 1972	N/A	N/A	-	N/A	N/A	-
4. Preferential treatment of distributions of pre-1972 corporate surplus	N/A	-	-	N/A	-	-
5. Flow through of capital gains for private corporations	N/A	-	-	N/A	-	-
6. Preferential treatment of stock dividends of public corporations	-	-	-	N/A	-	-
7. $1,000 capital gains exemption for personal use property transactions	N/A	-	-	N/A	-	-
8. $200 capital gains exemption on foreign exchange transactions	N/A	-	-	N/A	-	-
9. Deferral of capital gains income through various rollover provisions a. involuntary dispositions b. voluntary dispositions c. transfer to a corporation for consideration including shares	N/A	N/A	-	N/A	N/A	-
10. Accrued capital gains income not included elsewhere	N/A	N/A	-	N/A	N/A	-
11. Dividend gross-up & tax credit for individuals	170.0	-	-	350.0	-	-
12. Refunds of Part I tax on investment income of private corporations	-	56.4	-	-	65.0	-
13. Preferential treatment of investment and other special corporations	-	N/A	-	-	N/A	-
14. Lower tax rate for investment corporations	-	N/A	-	-	N/A	-
15. Deductibility of patronage dividends by credit unions and other cooperatives	-	60.4	-	-	70.0	-
16. Lower corporate income tax rate for credit unions and other co-operatives	-	N/A	-	-	N/A	-
17. $1,000 investment income deduction	425.0	-	-	650.0	-	-
18. Other accrued investment income not included elsewhere	N/A	N/A	-	N/A	N/A	-

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures Personal Income Tax	1976 Tax Expenditures Corporate Income Tax	1976 Tax Expenditures Commodity Tax	1979 Tax Expenditures Personal Income Tax	1979 Tax Expenditures Corporate Income Tax	1979 Tax Expenditures Commodity Tax
			($ millions)			
19. Non-taxation of investment income on life insurance policies	N/A	-	-	N/A	-	-
20. Tax deferral from certain deductions for policy reserves of insurance companies	-	N/A	-	-	N/A	-
21. Non-taxation of life insurance companies' world income	-	N/A	-	-	N/A	-
22. Exemption from withholding tax for interest on long-term corporate securities	-	10.0	-	-	100.0	-
23. Exemption from withholding tax for interest on foreign currency deposits	-	70.0	-	-	95.0	-
24. Reduction in withholding tax for corporations having a degree of Canadian ownership	-	15.0	-	-	20.0	-
25. Two-year write-off on pollution control equipment	-	6.3	-	-	10.0	-
26. Excess of tax depreciation over book depreciation not included elsewhere	110.0	145.0	-	150.0	225.0	-
27. 3-per-cent inventory valuation adjustment	-	-	-	30.0	325.0	-
28. Exemption of banks from branch tax	-	N/A	-	-	N/A	-
29. Excess of doubtful debt reserves over expected amounts (mainly financial institutions)	-	N/A	-	-	N/A	-
30. Preferential tax treatment of income debentures and term preferred shares	-	40.0	-	-	400.0	-
31. Tax deferral on income of foreign affiliates of Canadian corporations	-	N/A	-	-	N/A	-
32. Exemption of metric scales and conversion kits from sales tax	-	-	S	-	-	S
33. Tax deferral available from Income Averaging Annuity Contracts (IAACs)	90.0	-	-	105.0	-	-
34. Deductibility of pre-paid expenses	N/A	N/A	-	N/A	N/A	-
35. Deferral of tax from use of holdbacks on progress payments by contractors	N/A	N/A	-	N/A	N/A	-
36. Deferral of tax from use of billed-basis accounting by professionals	N/A	N/A	-	N/A	N/A	-
37. Exemption of non-manufacturing commercial uses of fuel and electricity from sales tax	-	-	275.0	-	-	350.0

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures Personal Income Tax	1976 Corporate Income Tax	1976 Commodity Tax	1979 Tax Expenditures Personal Income Tax	1979 Corporate Income Tax	1979 Commodity Tax
			($ millions)			
38. Tax losses from fast write-offs of certain leased assets	N/A	N/A	-	N/A	N/A	-
VI. HEALTH AND WELFARE						
A. Health						
1. Deductibility of medical expenses	25.0	-	-	32.0	-	-
2. Portion of charitable deduction and non-taxation of registered charities	*	*	-	*	*	-
3. Exemption of drugs from sales tax	-	-	95.0	-	-	95.0
4. Exemption of purchases by hospitals, sanatoria, etc. from sales tax	-	-	140.0	-	-	145.0
5. Exemption of health appliances from sales tax	-	-	11.0	-	-	11.0
B. Income Maintenance						
1. $1,000 pension income deduction	78.0	-	-	100.0	-	-
2. Age exemption under the personal income tax	128.0	-	-	185.0	-	-
3. Non-taxation of Guaranteed Income Supplement and Spouses Allowance payments	S	-	-	S	-	-
4. Tax advantage on savings in Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs)	1,400.0	-	-	2,000.0	-	-
5. Portion of tax deferral available from Income Averaging Annuity Contracts (IAACs)	*	-	-	*	-	-
6. Tax advantage on savings in Canada and Quebec Pension Plans (CPP/QPP)	290.0	-	-	480.0	-	-
7. Rollovers into RRSPs	*	-	-	*	-	-
8. Deductibility of support payments	N/A	-	-	N/A	-	-
9. Income splitting through interest-free loans between family members	N/A	-	-	N/A	-	-

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures Personal Income Tax	1976 Corporate Income Tax	1976 Commodity Tax	1979 Tax Expenditures Personal Income Tax	1979 Corporate Income Tax	1979 Commodity Tax
	($ millions)					
10. Marital exemption	930.0	-	-	1,355.0	-	-
11. Exemption for wholly-dependent children	609.0	-	-	870.0	-	-
12. Exemptions for other dependants	29.0	-	-	36.0	-	-
13. Child tax credit	-	-	-	810.0	-	-
14. Preferential Tax Treatment of Workmen's Compensation	198.0	230.0	-	265.0	300.0	-
15. Non-taxation of income from personal injury awards (including awards for Thalidomide injuries)	N/A	-	-	N/A	-	-
16. Non-taxation of strike pay	3.0	-	-	S	-	-
17. Non-taxation of up to $10,000 of death benefit	N/A	-	-	N/A	-	-
18. Exemption of food and non-alcoholic beverages from sales tax	-	-	2,120.0	-	-	2,200.0
19. Exemption of home-heating fuels and electricity from sales tax	-	-	400.0	-	-	400.0
20. Exemption of clothing and footwear from sales tax	-	-	465.0	-	-	440.0
21. Deductibility of unemployment insurance premiums	215.0	270.0	-	240.0	325.0	-
22. Preferential Tax treatment of registered supplementary unemployment insurance plans	-	N/A	-	-	N/A	-
23. Inter-spousal capital gains rollover	N/A	-	-	N/A	-	-
C. Social Assistance						
1. Non-taxation of means- and-needs tested and income-tested social assistance benefits	S	-	-	S	-	-
2. Exemption for the disabled and the blind	6.0	-	-	10.0	-	-
3. Exemption of goods manufactured by the handicapped from sales tax	-	-	N/A	-	-	N/A
D. Indians and Eskimos						
1. Non-taxation of income earned by Indians on reserves	N/A	-	-	N/A	-	-

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures Personal Income Tax	1976 Corporate Income Tax	1976 Commodity Tax	1979 Tax Expenditures Personal Income Tax	1979 Corporate Income Tax	1979 Commodity Tax
			($ millions)			
E. Housing and Urban Renewal						
1. Non-taxation of capital gains on principal residence	2,770.0	-	-	2,500.0	-	-
2. Non-taxation of imputed income on equity in owner-occupied residences	2,900.0	-	-	3,700.0	-	-
3. Registered Home Ownership Savings Plan (RHOSP) deduction	105.0	-	-	115.0	-	-
4. Multiple Unit Residential Buildings (MURB) provision	10.0	N/A	-	10.0	N/A	-
5. Deductibility of carrying charges on land	-	-	-	-	35.0	-
6. Non-taxation of income of corporations providing low-cost housing for the aged	-	N/A	-	-	N/A	-
7. Portion of charitable deduction	*	*	-	*	*	-
8. Non-taxation of first-time home buyer grants	8.0	-	-	-	-	-
9. Reduced rate of sales tax on building materials	-	-	470.0	-	-	395.0
10. Exemption of construction equipment from sales tax	-	-	80.0	-	-	80.0
11. Exemption of goods in competition with on-site construction from sales tax	-	-	N/A	-	-	N/A
12. Exemption of ready-mix concrete from sales tax	-	-	55.0	-	-	55.0
13. Reduced rate of sales tax on travel trailers used as homes	-	-	3.5	-	-	-
VII. EDUCATION ASSISTANCE						
1. Non-taxation of first $500 of scholarship and bursary income	4.0	-	-	6.0	-	-
2. $50 per month education deduction	39.0	-	-	42.0	-	-
3. Deduction of tuition fees	30.0	-	-	41.0	-	-
4. Deduction of contributions to teachers exchange fund	N/A	-	-	N/A	-	-
5. Preferential Tax Treatment of Registered Education Savings Plans (RESPs)	N/A	-	-	N/A	-	-
6. Exemption of construction materials & equipment bought by educational institutions from sales tax	-	-	57.0	-	-	52.0

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures: Personal Income Tax	1976: Corporate Income Tax	1976: Commodity Tax	1979 Tax Expenditures: Personal Income Tax	1979: Corporate Income Tax	1979: Commodity Tax
	($ millions)					
7. Exemption of technical, educational, and other books from sales tax	-	-	28.0	-	-	28.0
8. Portion of charitable deduction and non-taxation of registered charities	*	*	-	*	*	-
VIII. CULTURE AND RECREATION						
1. Deductibility of itemized charitable donations and the $100 standard deduction	320.0	35.0	-	355.0	40.0	-
2. Non-taxation of registered charities	-	N/A	-	-	N/A	-
3. 100 per cent write-off for Canadian films	N/A	*	-	N/A	*	-
4. Non-taxation of capital gains on gifts of property under the Cultural Property Export and Import Act	N/A	-	-	N/A	-	-
5. Portion of tax deferral available from Income Averaging Annuity Contracts	*	-	-	*	-	-
6. Write-off on art work purchased by businesses	*	*	-	*	*	-
7. Non-taxation of lottery and gambling winnings	200.0	-	-	300.0	-	-
8. Deduction for clergymen's residence	N/A	-	-	N/A	-	-
9. Non-taxation of certain income of individuals who have taken vows of perpetual poverty	N/A	-	-	N/A	-	-
10. Exemption of newspaper and magazine production from sales tax	-	-	50.0	-	-	50.0
11. Exemption of a range of cultural and religious materials from sales tax	-	-	N/A	-	-	N/A
12. Exemption of imported antiques from sales tax	-	-	2.0	-	-	2.0
13. Exemption of amusement devices and equipment for use at exhibits or fairs from sales tax	-	-	N/A	-	-	N/A
14. Exemption of bicycles & tricycles from sales tax	-	-	13.0	-	-	11.0
15. Exemption of the outputs of craftsmen, artists, and sculptors from sales tax	-	-	7.0	-	-	7.0

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures			1979 Tax Expenditures		
	Personal Income Tax	Corporate Income Tax	Commodity Tax	Personal Income Tax	Corporate Income Tax	Commodity Tax
	($ millions)					
IX. FISCAL TRANSFER PAYMENTS						
1. Income tax abatement to Quebec for contracting out of the shared-cost programs	965.0	-	-	825.0	-	-
2. Transfers of income tax room to provinces in respect of shared-cost programs	750.0	170.0	-	3,000.0	270.0	-
3. Exemption from withholding tax for interest on provincial and municipal debt	-	160.0	-	-	270.0	-
4. Income tax exemption for provincial and municipal corporations	-	N/A	-	-	N/A	-
5. Exemption of a range of municipal purchases from sales tax	-	-	100.0	-	-	100.0
6. Exemption of provincial purchases from sales tax for provinces not party to the Reciprocal Taxation Agreements	-	-	90.0	-	-	30.0
X. PUBLIC DEBT						
1. Exemption from withholding tax for interest on Government of Canada debt	-	20.0	-	-	60.0	-
XI. OTHER TAX PREFERENCES						
1. General averaging for individuals	155.0	-	-	200.0	-	-
2. Non-taxation of certain federal Crown corporations	-	N/A	-	-	N/A	-
3. Non-taxation of income of various non-profit entities not included elsewhere	-	N/A	-	-	N/A	-

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures: Personal Income Tax	1976 Tax Expenditures: Corporate Income Tax	1976 Tax Expenditures: Commodity Tax	1979 Tax Expenditures: Personal Income Tax	1979 Tax Expenditures: Corporate Income Tax	1979 Tax Expenditures: Commodity Tax
	($ millions)					
3. Oil export charge	-	-	828.0	-	-	377.0
4. Special levy to provide international oil prices to Syncrude	-	-	-	-	-	285.0
5. Refunds of special excise tax on gasoline to commercial users	-	-	195.0	-	-	150.0
C. Resource Sector						
1. Revenue impact of 25 per cent resource allowance						
a. mining	-	130.0	-	-	N/A	-
b. petroleum, coal and gas	-	475.0	-	-	N/A	-
2. Revenue impact of non-deductibility of provincial royalties						
a. Mining	-	30.0	-	-	N/A	-
b. Petroleum, coal and gas	-	715.0	-	-	N/A	-
3. Logging tax credit	-	9.0	-	-	N/A	-
D. Other						
1. Childcare expense deduction	35.0	-	-	40.0	-	-
2. Employment expense deduction	250.0	-	-	500.0	-	-
3. $5,000 limit for deduction of hobby farm losses	50.0	0.2	-	60.0	S	-
4. Non-taxation of expense allowances of MPs, MPPs, Royal Commissioners, and certain municipal officials	S	-	-	S	-	-
5. $2,000 limit for deduction of capital losses against other income	20.0	-	-	N/A	-	-
6. Goodwill and expensing of advertising costs	N/A	N/A	-	N/A	N/A	-
7. Non-deductibility of advertising expenses in foreign media	-	N/A	-	-	N/A	-
8. Non-deductibility of salary paid to spouse by unincorporated business	125.0	-	-	150.0	-	-

TABLE 1 (Continued)

Functional Category and Item	1976 Tax Expenditures: Personal Income Tax	1976 Tax Expenditures: Corporate Income Tax	1976 Tax Expenditures: Commodity Tax	1979 Tax Expenditures: Personal Income Tax	1979 Tax Expenditures: Corporate Income Tax	1979 Tax Expenditures: Commodity Tax
			($ millions)			
4. Exemption of goods imported in travellers' baggage from sales tax	-	-	N/A	-	-	N/A
5. Exemption of manufacture of coins from sales tax	-	-	N/A	-	-	N/A
XII. MEMORANDUM ITEMS						
A. Selected Totals						
1. Total tax expenditure value of Investment Tax Credit items listed above	40.0	100.0	-	85.0	625.0	-
2. Total tax expenditure value of items listed above for CCA claims in excess of book depreciation	135.0	910.0	-	175.0	1,250.0	-
3. Cumulative amount of federal corporate income taxes deferred per companies books	-	8,450.0	-	-	N/A	-
4. Cumulative amount of tax deferrals and reductions due to deductibility of contributions to RRSPs and RPPs	15,250.0	-	-	20,500.0	-	-
5. Cumulative amount of tax deferrals and reductions due to deductibility of CPP/QPP contributions	3,150.0	-	-	4,850.0	-	-
B. Commodity Tax						
1. Exemption of services from the sales tax base	-	-	4,480.0	-	-	4,600.0
2. Other commodity taxes in excess of manufacturers sales tax						
a. gasoline	-	-	634.0	-	-	435.0
b. tobacco	-	-	704.0	-	-	800.0
c. alcohol	-	-	555.0	-	-	665.0
d. jewelry	-	-	37.0	-	-	45.0
e. heavy cars, car air conditioners, private planes, motorcycles, boat motors	-	-	24.0	-	-	26.0
f. air transport	-	-	70.0	-	-	90.0
g. other	-	-	10.0	-	-	11.0

APPENDIX II

Historical Summaries

FINANCING PROGRAMS
HISTORICAL SUMMARY

(Millions of Dollars)

Fiscal Year	Loans to and Investments in the Federal Business Development Bank (Net Change During Year)	Loans to and Investments Investments in the Export Development Corporation (Net Change During Year)	Insured Small Business Loans Act Loans (Outstanding at Year end)	General Adjustment[1] Assistance Program (Insured Loans Outstanding at Year end)
1970/71	(3)	80.9	24.1	6.8
1971/72	(3)	118.0	17.8	17.2
1972/73	(3)	123.9	20.6	24.9
1973/74	(3)	141.4	28.6	56.8
1974/75	(3)	93.1	31.8	73.8
1975/76	197.0	357.4	30.6	61.8
1976/77	307.0	202.0	37.0	68.4
1977/78	241.0	84.0	40.0	98.5[2]
1978/79	267.0	50.8	61.7	159.7

Source: Public Accounts of Canada

(1) a predecessor of the Enterprise Development Program
(2) GAAP merged with EDP
(3) data unavailable.